Nestor Healthcare Group plc Annual report and accounts 2000

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The UK's number one provider of personnel and service solutions to the fast-growing healthcare market

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Our emphasis on quality and quick response makes us the first choice partner for organisations providing short or long-term health and social care for the community.

Contents

Healthcare Personnel Division

The UK's number one choice for health and care professionals.

Healthcare Personnel Turnover

	2000 £m	1999 £m
BNA	**190.7**	190.8
Grosvenor Group	**42.7**	25.4
Other	**12.0**	14.4
Total	**245.4**	230.6

British Nursing Association (BNA)

BNA is the UK's largest nursing and care agency with more than 160 locations across the country and a register of over 126,000 workers.

These healthcare professionals deliver services to local hospitals, nursing and care homes, Social Services departments, industry and people in their own homes.

The majority of BNA's business is held under contract with key clients who require immediate access to high-quality health and social care workers.

Niche brands developed by BNA deliver specialist services, particularly in homecare.

Healthcare Services Division

Delivering innovative solutions for the UK's growing healthcare market.

Healthcare Services Turnover

	2000 £m	1999 £m
NDA	**30.2**	33.9
NMDS	**11.1**	11.0
FMS	**5.0**	1.5
Other	**1.1**	0.4
Total	**47.4**	46.8

Nestor Disability Analysis (NDA)

NDA manages the provision of medical staff involved in medical examinations, administering a register of over 3,500 self-employed doctors and medical personnel.

Together these personnel deliver in excess of 800,000 disability assessments each year for claimants referred by the Benefits Agency under an outsourcing contract.

Assessments take place in medical centres or in claimants' homes across the UK and are used to evaluate an individual's ability to carry out daily activities at home or in their workplace.

svenor Group

venor Nursing places specialist tal healthcare and general ng personnel in NHS Trusts, ns, secure units and institutions.

ico Nursing and Homecare ides nurses and care workers to itals, nursing and care homes and stry through its five locations in West of England.

S joined the Group in 2000 as a ly respected provider of nurses healthcare assistants to NHS s, on a contracted basis.

Medic International

Medic International finds suitable work for doctors, therapists, technicians and other professionals allied to medicine. Medic has developed niche brands to focus on the specific needs of these medical professionals.

Specialist Support Businesses

Country Cousins provides live-in companions to those needing professional and practical support to remain in their own homes.

Worldwide Healthcare Exchange finds suitable work for English-speaking nurses, doctors and other healthcare professionals around the world.

Carewatch

Carewatch is a franchise operation providing care in the home, either directly or via Social Services departments.

tor Medical Duty Services MDS)

DS provides out-of-hours deputising ces to GPs and Primary Care ups and Trusts.

services, which are all delivered hree regional call centres, comprise ultants at 23 Primary Care res, and home visits from a GP.

ially trained operators, with ss at all times to a medical tor, take all incoming calls lients.

Forensic Medical Services (FMS)

FMS is the UK's leading provider of healthcare services to secure establishments: prisons, secure training centres, immigration detention centres and young offender institutions.

A comprehensive range of healthcare and related services is provided to 17 prisons and secure units in both the public and the private sectors.

These services are designed to meet the particular health needs and considerations arising out of the secure establishment.

They are managed by experienced healthcare managers, working in partnership with the NHS, various voluntary agencies and the local community.

New Businesses

Primecare delivers complex treatments including chemotherapy, intravenous antibiotic therapy and palliative care to patients at home, reducing hospital admissions and time spent in hospital.

Healthwatch uses the latest technology, a dedicated call centre and the Group's register of health and care professionals to deliver remote healthcare monitoring services.

Financial Highlights

- Strong growth in profits, operating margins and cash flow
- Significant increase in operating margins as a result of concentrating on higher quality contracted business and effective cost control
- Dividend up by 20% to 6.69 pence
- Investment in new Healthcare Services businesses – Healthwatch and Primecare
- Acquisitions of £11m during year expected to contribute approximately £1.5m operating profit annually
- Cash flow from operations more than doubled to £23.8m (1999: £8.9m)

* Stated before goodwill amortisation and exceptional items.

** Underlying margin in 1999, excluding one-off costs, was 5.3%.

Nestor in the Healthcare Marketplace

The value of the UK healthcare market now stands at £72 billion and is estimated to grow by 21% over the next three years to reach £87 billion.

- **Imbalance between supply and demand**

  As demand for healthcare services increases, demand for professionals continues to outstrip supply. This key factor will continue to affect the UK healthcare market in 2001 and beyond.

- **Diminishing healthcare workforce**

  The ageing workforce (the number of nurses over the age of 55 is set to double in the next 5 years) and lower numbers joining the various healthcare professions mean that the UK healthcare workforce is diminishing.

- **Ageing population**

  The driving force behind the growth of the UK healthcare market is an ageing population. The 60+ age group is estimated to make up 25% of the population by 2020, with the 85+ age group increasing from 1.1m to 3m by 2056. The cost per head of providing health services to the 85+ age group is more than four times higher than the cost of providing services to 45-64 year olds.

- **NHS**

  Total expenditure is currently £49 billion. The NHS Plan released in July 2000 provides for a 50% increase in budget and 29,000 extra healthcare staff. As part of the Plan, £900m is to be invested in intermediate care services that will prevent unnecessary hospital admission or enable patients to leave hospital early.

- **Social Services**

  Total expenditure is currently £11 billion. Domiciliary care purchased from the independent sector has steadily increased, reaching 51% of total expenditure in 2000. Best Value and the independence of service users remain key drivers in this market, as more Social Services departments look to outsource their domiciliary care provision.

- **Primary care**

  There are now 536 Primary Care Groups (or regional equivalents) and 53 Primary Care Trusts commissioning services for their local populations. The move to primary-led healthcare continues, with an emphasis on the integration of health and social care and the development of intermediate care programmes.

- **Independent hospitals**

  Total expenditure is currently £3 billion. Spend on private acute healthcare has increased by 105% since 1990 and continued growth is expected as a result of the Concordat between the NHS, private and voluntary sectors, announced in October 2000.

- **Private patients**

  Privately funded expenditure on homecare and aids and adaptations is currently £684m. The informal care market is estimated to be worth a further £21 billion.

- **Nursing and residential homes**

  Total expenditure is currently £8.5 billion. This market continues to consolidate, with revenue growth strongest in the private and voluntary residential care sector.

- **Other sectors**

  Growth in other healthcare sectors continues. Total expenditure in the occupational health market is currently £200m with £50m contracted out to the private sector. Estimated spend on prison healthcare in 2000 was £90m.

Board of Directors

David Heywood CBE
Non-executive Chairman

(65) Appointed non-executive Chairman in 1994. Part-time executive Chairman between 1996 and 1999. Formerly Chairman of Remploy Ltd, executive director and deputy Chairman of British-American Tobacco Co Ltd. Other former appointments include non-executive director of Rentokil Initial plc. He is Chairman of the Remuneration and Nomination Committees, and is a member of the Audit Committee.

Justin Jewitt
Chief Executive

(46) Appointed Chief Executive to the Group in 1997. Joined BNA in May 1994 as Managing Director, becoming a Board member in mid 1996. He was previously Managing Director of two BET business services companies, prior to which he worked for Thorn-EMI and Mobil Oil.

David Lyon
Group Finance Director

(39) Appointed to the Board as Group Finance Director in January 1998. A chartered accountant, he joined the Company as Group Financial Controller in 1991, prior to which he held positions at Ernst & Whinney, Price Waterhouse and Whitbread plc.

Mike Horgan
Managing Director
Healthcare Personnel Division

(55) Appointed to the Board in January 2000, having joined BNA as Operations Director in 1992, becoming Managing Director five years later. He has considerable experience of agency management and staffing businesses, having held various positions in the recruitment industry since 1981.

Stephen Page
Managing Director
Healthcare Services Division

(38) Appointed to the Board in March 2001. Previously Managing Director at Priory Healthcare Group plc between 1998 and 2000. Between 1993 and 1998 he was Chief Executive Officer of Oxleas NHS Trust, the NHS provider of community and mental health services to the London Borough of Greenwich, Bexley, and Bromley. Prior to this he held management posts throughout the NHS. He has an MBA from London Business School

Robert Nicholls CBE
Non-executive Director

(61) Appointed to the Board in 1997. He is an independent healthcare management consultant, lay member of the GMC and an associate consultant on health management for the British Council. He was formerly a senior NHS manager and is an associate fellow of Templeton College, Oxford. He is the senior non-executive Director and a member of the Remuneration and Audit Committees.

Dr William Holmes
Non-executive Director

(46) Appointed to the Board in January 2000. A member of the Royal College of Physicians of London, Fellow of the Royal College of General Practitioners, clinician, general practice principal, hospital practitioner and consultant. He has held various academic, advisory and GMC posts. He is a member of the Remuneration and Audit Committees.

David Howell
Non-executive Director

(51) Appointed to the Board in 1999. A chartered accountant and Group Finance Director at First Choice Holidays PLC. Formerly Group Finance Director at Central Transport Rental Group PLC and Chief Executive Officer at GN Comtext Ltd a major subsidiary of GN Great Nordic Ltd. He is a member of the Remuneration Committee and is Chairman of the Audit Committee.

Antony Beevor
Non-executive Director

(60) Senior Advisor, SG Hambros and a Deputy Chairman of the Takeover Panel since 1999. Previously he was head of Corporate Finance at Hambros and Director General at the Panel of Takeovers and Mergers. His other non-executive appointments include Croda International Plc and Helical Bar plc. He is a member of the Remuneration and Audit Committees.

Anne Parker CBE
Non-executive Director

(61) Appointed to the Board in 1999. Independent Case Examiner to the Child Support Agency and Chair of the Carer's National Association. She was previously Director for Social Services (Berkshire) from 1980 to 1994. She holds various advisory appointments and speaks on national health and social policy. She is due to retire on 31st March 2001 to take up the position of Chair of the National Care Standards Commission from 1st April. She is a member of the Remuneration and Audit Committees

Emma Thomas
Company Secretary

Chairman's Statement

I am very pleased to report that 2000 has been an excellent year for the Group, with significant increases in operating margins, profits and cash flow.

Strategy

2000 was our first full year of operation as a UK-focused healthcare Group and the benefits of this are clearly demonstrated by the substantial 68% increase in UK operating profits.

Our aim is to be the number one private sector provider of health and social care personnel in the UK and a leader in the provision and growth of new and developing healthcare services.

Over the year, our strategy has focused on a combination of:

- organic growth
- growth through acquisition
- the development of new businesses.

We have made considerable progress this year in all three elements of the strategy. Our core businesses have grown their operating margins and profits and delivered improvements in cash flow. In addition we have continued to acquire businesses and, where appropriate, integrate them with our existing operations. We have also continued to invest in new businesses with the development of Healthwatch, our new telemonitoring service and Primecare, the business established last year to deliver specialist nursing treatment in the home.

Summary of results

- UK turnover increased by 6% to £292.8m (1999: £277.4m)
- UK operating profit grew 68% to £18.3m (1999: £10.9m)
- UK operating margins improved from 3.9% to 6.3%
- Pre-tax profit was up 45% to £18.8m (1999: £13.0m)
- Earnings per share increased 53% to 17.1p (1999: 11.2p)
- Cash flow from operations more than doubled to £23.8m (1999: £8.9m)

All figures are stated before exceptional items and goodwill amortisation. The underlying margin, excluding one-off costs, in 1999 was 5.3%.

Dividends

Your Board is recommending a final dividend of 4.27p per share, an increase of 20%, making a total of 6.69p, for the year.

Healthcare Personnel Division

The Healthcare Personnel Division comprises BNA, the Grosvenor Group and other businesses, which include Carewatch, Medic International, Country Cousins and Worldwide Healthcare Exchange (WHE).

- Turnover grew by 6% to £245.4m (1999: £230.6m)
- Operating margins grew from 4.1% to 6.5%
- Operating profit grew by 70% to £16.0m (1999: £9.4m)

During 2000, the Healthcare Personnel Division has focused on improving the quality of earnings through a combination of renewing contracts on more favourable terms, improving cash flow and cost control, and enhancing the quality of its service. Although we have been successful in winning a significant number of new contracts, in some cases our strategy has led us not to renew some contracts where the terms would have been unattractive. During the year, over 50% of BNA's turnover and over 60% of that of the Grosvenor Group was held under contract.

By focusing on operating profit and working capital, we have significantly improved margins, profits and cash flow in this division.

All the companies within the division have recorded excellent results. BNA, the general nursing and care agency, contributed £190.7m of turnover (1999: £190.8m), representing almost 80% of the division's turnover. It delivered a very significant increase in profits, whilst improving the quality of its earnings. I am particularly pleased with the progress in the homecare market, especially the Brent contract which provides an excellent reference point for contracts of a similar size and nature in the future.

The Grosvenor Group, comprising the businesses of Grosvenor, Medico and LPNS (acquired in October 2000) has grown turnover 68% to £42.7m (1999: £25.4m) through a combination of organic growth and acquisition. Operating margins and profits have increased significantly.

The other Healthcare Personnel Division businesses comprising Carewatch, Medic International and Country Cousins have all performed well. I am particularly pleased with Carewatch, the homecare franchise business, which has grown very considerably during the year. By December it had increased its franchisees and branches to 99 and increased its provision

of care by 60% to 72,000 hours per week. In line with our original plan, it has not yet produced a significant contribution to profits

Healthcare Services Division

The Healthcare Services Division comprises Nestor Medical Duty Services (NMDS) – the out-of hours duty service to GPs, Nestor Disability Analysis (NDA) – the screening service for the Benefits Agency, Forensic Medical Services (FMS) – the provider of healthcare services to prisons and secure establishments, together with the two new businesses, Primecare and Healthwatch, which are being developed in-house.

- Turnover grew by 1% to £47.4m (1999: £46.8m)
- Operating margins grew from 3.0% to 4.9%
- Operating profit grew by 64% to £2.3m (1999: £1.4m)
- Start-up and development costs in Primecare and Healthwatch were approximately £1.0m.

2000 has been a very successful year for the Healthcare Services Division, providing a platform for future growth. The division was set up in 1999 to exploit growing opportunities to provide services to the healthcare market. With the exception of NDA, these are businesses providing higher added-value services and margins compared to the sourcing and placement of personnel.

The relatively low turnover growth masks significant advancements by NMDS, FMS and Primecare.

After many years of uncertainty following the previous government's development fund initiative, which led to competition from cooperatives, NMDS is now growing its operating profit. Its turnover grew from £11.0m in 1999 to £11.1m but with improved margins. We are very encouraged by the prospective changes in this market as GPs form Primary Care Trusts with real spending power and as changes are made to the standard contract terms of GPs with Health Authorities.

FMS, acquired in 1999, has proved to be an excellent acquisition with turnover of £5.0m and good margins. As the leading provider of healthcare in a secure environment, the future prospects for FMS in its market are excellent as the drive to outsource services in prisons and detention centres continues.

NDA, providing screening services to the Benefits Agency, has grown profits on reduced turnover of £30.2m (1999: £33.9m) as the number of screenings reverted to more normal levels after backlogs were cleared during 1999.

Primecare, launched in 1999 to provide services in the new and exciting market of disease management, has more than doubled its turnover to £1.1m in 2000, and has broken even.

Healthwatch is a new business development in which we have invested over £1.0m during the year, including capital expenditure. Using the latest communications technology, we have developed a call centre, comprising specialist nurses and doctors, which during the year began to provide remote monitoring services. This business is still developing and is expected to contribute profits in the medium term.

Controls

In accordance with the Turnbull Guidelines, we have developed a comprehensive controls review and risk management process and are fully compliant with all aspects. The Board continues to focus on all aspects of control and risk management, receiving regular reports from management and the Group's internal auditors. Full details are set out in the Corporate Governance Report on pages 31 to 33.

Acquisitions

In line with our strategy, we acquired three businesses towards the end of the year. With a total investment in the year of approximately £11m, we expect these businesses to generate operating profit of approximately £1.5m in 2001.

In October, we completed the purchase of LPNS, a nursing agency with an historic annual turnover of £36.5m, a high proportion of which was contracted, for a net consideration of £9m. We have fully integrated this into our existing operations and expect it to generate profits well in excess of £1.0m in 2001. Also in October, we acquired the business of Bankvale, a homecare business operating mainly in Staffordshire, from the Receiver for £0.6m and have integrated it into BNA. We expect Bankvale to generate a valuable contribution to profits during 2001.

In December 2000, we acquired 51% of Hertford Medical International for £1.0m, a business specialising in cardiac monitoring, mainly for the pharmaceutical industry. This business complements Primecare's disease management business and Healthwatch's operation. Historic turnover was £1.1m, and the balance of 49% of the equity may be acquired after two years on an earn-out basis.

Since the year-end, we have acquired three more small businesses; two homecare businesses operating in the Midlands with an historic turnover of £2.8m and a 51% share of Care Monitoring 2000, a start-up telemonitoring service for the homecare market.

Board and management

There have been a number of Board appointments since the beginning of 2000. Antony Beevor joined the Board in November 2000 and brings with him extensive business and financial experience as a former director of Hambros and as a current Deputy Chairman of the Takeover Panel. Mike Horgan, previously Managing Director of BNA, was appointed to the Board in January 2000, and was appointed Managing Director of the Healthcare Personnel Division. Stephen Page joined the Group as Managing Director, Healthcare Services in November 2000 and became a member of the Board on 2nd March 2001. His key responsibility is to develop Nestor's Healthcare Services businesses and in particular to develop Healthwatch and Primecare into strong and profitable growth businesses.

These appointments reflect the growth of the Group over recent years and the need for separate strategic focus on Nestor's two operating divisions.

Anne Parker, CBE will be leaving the Board on 31st March following her appointment as Chair of the National Care Standards Commission. This is a prestigious appointment and I would like to mention that the Board and executive management of Nestor have benefited greatly from her extensive experience and knowledge of social care, and we all wish her well.

Staff

Once again, the Board recognises the real commitment of all of our staff during this challenging and exciting year and I thank them personally and on behalf of the Board. The Group's excellent results reflect this commitment.

We are committed to a policy of rewarding good performance and have ensured that pay rates and benefits are competitive. We continue to make regular grants of share options to middle and senior management and also offer SAYE share options to all permanent staff.

Outlook

In Healthcare Personnel, growth is expected to continue with recent and expected contract gains with NHS Trusts and Local Authorities. In Healthcare Services all businesses are performing well. In particular, we expect to see further progress in Primecare and Healthwatch during 2001 and we have recently made important contract gains in FMS.

We are encouraged by the level of business performance so far in 2001 in both divisions. Our strategy is to continue to concentrate on the UK health and social care markets focusing on business growth and improvements in margins. We expect to improve turnover through organic growth and through acquisition. Overall, we are confident that Nestor Healthcare will continue to deliver strong growth in turnover and profits.

David Heywood CBE, Chairman
5th March 2001

Chief Executive's Review

Strong growth, strategic acquisitions, new partnerships and the creation of new businesses characterise the past year for Nestor. We are very well placed for future growth.

In 2000, the Group enjoyed another year of strong growth, delivering strategic acquisitions, developing partnerships and creating new businesses to service the increasing needs of the ever-expanding UK healthcare market. It is pleasing to note that in 2000, the Group successfully integrated and developed all of the acquisitions made in 1999 in line with its strategy to focus on the UK healthcare market.

The UK's leading health and care provider

Since July 1999, when we disposed of our USA affiliate, the Group has focused its operations in two divisions: Healthcare Personnel and Healthcare Services. Together, these divisions make the Group the UK's number one private sector provider of personnel and service solutions to the growing UK health and social care market. During 2000, the executive management made significant progress in the implementation of the operational, management and internal control infrastructure to provide for the Group's maximum future growth

Planning for growth

The Healthcare Personnel Division places the full range of health and care professionals in temporary and permanent assignments, from a register of over 200,000 personnel. Businesses in the Healthcare Services Division focus on the provision of a fully managed value-added service to a range of clients, from private patients to Primary Care Trusts, NHS Trusts and Local Authorities. Although this division is currently much smaller in terms of turnover than the Healthcare Personnel Division, we have identified that the provision of high-quality, innovative services has good potential for growth as public and private purchasers of health and social care continue to search for new, cost-effective solutions for the health and welfare of the UK population. With this in mind, in November 2000 we appointed Stephen Page, a senior manager with extensive experience of public and private sector healthcare, as Managing Director of the Healthcare Services Division. Under Stephen's direction, we expect the businesses in this division to grow at an even faster pace.

Improved margins

All of the Group's established businesses have grown their margin. A keynote of the year has been the achievement of a significant upgrading of the quality of contract business and margins in the Healthcare Personnel Division. BNA has improved its margin by working to review major contracts at improved commission rates, in order to continue delivering the quality of service required in a marketplace characterised by ever-shortening supply. Stripping out the effect of the termination by BNA of high-volume, low-margin contracts, its turnover growth has been significant (in double digits) as it has concentrated on gaining or renewing business that provides a better return. The majority of this activity took place in the first half of the year and BNA will enjoy the continuing benefit of its action in 2001.

Extended nursing and medical register

A further success for the Healthcare Personnel Division has been its ability further to expand the number and range of nursing and medical personnel on its registers. The Group can now call on the services of over 200,000 such staff, reflecting the professionals' preference for flexible working hours, greater focus on patient care and more control over career development. However, demand exceeds supply across the division. Worldwide Healthcare Exchange (WHE) continues to deliver more and more overseas, English-speaking healthcare professionals to the NHS and Group companies, but it is never enough.

Investment in national training standards

The Group recognises the need to foster effective partnerships with its clients, healthcare professionals and other providers of health and social care as a means of ensuring future growth. By investing in the training of its workforce, the Group can ensure that it has the resources available to provide a high-quality service to all its clients. Nestor provided training courses for over 6,000 care assistants in 2000 and was selected to write the induction programme for the Government's Training Organisation for Personal Social Services (TOPSS). This initiative will improve the supply of qualified care assistants in the future as the Care Standards Act requires care assistants in residential homes and in the community to achieve, or be studying towards, Level 2 NVQ by 2004. Nestor is very well placed to lead the development of the national training programme for care assistants that will be necessary once a UK professional register for care assistants is established.

Outsourcing domiciliary care

In the social care sector, Brent Care at Home, the UK's first outsourced domiciliary care team, has enjoyed its first full year partnering Brent Social Services in delivering high-quality care at a cost-effective price.

The success of this partnership positions the Group as a major contender for further outsourcing opportunities as they arise although, to date, other Local Authorities have been slow to recognise the advantages of outsourcing domiciliary care in this way.

Healthcare services recognised for excellence

In the Healthcare Services Division, the Group has extended the growth of FMS, acquired in August 1999, by working closely with Group 4, the leading UK private operator of prison and immigration services. During the year, FMS and Group 4 were identified by HM Prisons Inspectorate as operating a beacon of excellence for healthcare at Altcourse Prison. Also during the year, FMS staff at another of Group 4's secure environments won the prestigious Butler award for operating leading-edge healthcare programmes for preventing Hepatitis C.

NMDS, the second largest private provider of primary care deputising services, looking after 8% of the UK's population, had a good year developing its margins and business interests. All its call centres are directly linked to NHS Direct, the Government nurse advice line and NMDS look forward to developing further business opportunities at Primary Care Group level.

Extending services through partnership

During 2000, the Group, through Nestor Disability Analysis, has worked closely with Sema plc to improve the quality and performance levels delivered to claimants and to the Benefits Agency under Sema's contract to provide Medical Services. Together, they have built a sound base for developing a more innovative focus on service in the future.

The Group has also invested in partnerships to broaden its range of services further into new and exciting areas of healthcare provision. It has teamed up with SHL/Philips, the world's leading telecare service company, to create a platform on which to develop electronic monitoring services. The combination, in Healthwatch, of SHL's expertise in providing electronic monitoring equipment and the Group's access to first-class healthcare professionals, enables individuals to enjoy the assurance of 24-hour access to healthcare monitoring by a team of dedicated experts. The level of investment is a first for the Group – over £1m since the programme began in early 2000 – confirming our view that this type of innovative healthcare management will be an important part of the Group's future.

Growth through acquisition is key

Acquisitions, of both a strategic and tactical nature, continued to be an important focus for the Group's strategy for growth. In late December, the Group acquired Hertford Medical International, a business specialising in cardiac monitoring. It complements Healthwatch and Primecare's disease management businesses. All are well positioned to take advantage of the imminent changes to methods of purchasing healthcare in the NHS as the number of Primary Care Trusts increases. In October, our acquisition of LPNS further increased the Group's access to nursing agency staff and its share of the NHS temporary staffing market. Bankvale, a 12-branch regional provider of homecare, acquired from the Receiver in October, has assisted the Group's deeper penetration of the growing UK social care market and our acquisition of a 51% interest in Care Monitoring 2000 in January 2001 makes homecare telemonitoring services available to the whole Group.

Well positioned for the future marketplace

In July, the Government took major steps to strengthen the future of the NHS and Social Services. The NHS Plan commits to an increased volume and velocity of service – from shorter waiting times to improved levels of treatment – that will require extra healthcare professionals and services to achieve these targets over the next four years. A commitment to funding accompanies these targets and the NHS budget is due to grow by approximately 7% per annum (to about £70 billion) by 2004.
The Sutherland Commission's recommendation for the provision of free healthcare in nursing homes will be implemented by the NHS, effective October 2001, and the private sector's role in acute, intermediate and primary care has been formally recognised by the signing of the Concordat with the Private and Voluntary Health Care Provider Sector in October 2000. This is a great springboard for public/private partnership and the Group is well positioned to gain from it in 2001.

Justin Jewitt, Chief Executive
5th March 2001

Healthcare Personnel

All of the companies in this division performed well in 2000, focusing on improving the quality of their business, and the service delivered to clients, thereby enhancing their margins.

As the UK's largest nursing and care agency, BNA continues to increase the number of homecare hours delivered by its network of local workers.

BNA – the UK's largest nursing and care agency and the Group's largest subsidiary.

2000 was a positive year for BNA, benefiting from the UK's continuing shortage of nurses and healthcare workers and a rising demand for healthcare services within the NHS and homecare sectors. Whilst BNA's turnover was broadly flat at £190.7m (1999: £190.8m) its underlying turnover growth, excluding the effect of low-margin contracts terminated in 1999 and 2000, was in double digits.

BNA was re-awarded existing contracts in both the NHS and homecare sectors, with a value in excess of £31.5m and won additional new contracts in both sectors approaching £16.0m. The contract pipeline for further gains is strong, particularly in the market for the outsourcing of Local Authority in-house homecare where BNA already serves the London Borough of Brent under a three-year contract begun in October 1999.

Margins were improved on all contracts through renegotiated terms and management's focus on improving efficiencies and member utilisation. All the contract wins and renewals were priced at a competitive but profitable rate. Over 60% of BNA's NHS and Community Care sector business is now held under contract.

During the year, BNA strengthened its field operations structure, focusing on the development of small groups of branches. Four Regional Directors of Operations were appointed, reporting to the newly-appointed Managing Director, Operations. During the year, additional IT-based controls were implemented, further strengthening BNA's control environment and enhancing the quality of service provided to its customers.

BNA's strong operating profit growth during the year was driven by improved recruitment, retention and utilisation of healthcare workers throughout the branch network. The total number of nurses and carers on the register was 126,000 by the year-end – 15% up from the previous year. This enabled the business to improve the percentage of shifts filled and thus maximise the quality of service delivered to its customers.

BNA took action to address the shortage of suitably qualified healthcare workers by extending its internal training and quality programmes. During the year 3,500 members attended training courses run by BNA, an increase of 40% over 1999, enhancing BNA's pool of qualified homecare workers and enabling existing workers to develop their careers. BNA's appointment of 24 internal Quality Standards Audit Assessors to monitor and evaluate the quality and effectiveness of branch operations further enhanced its position as the leading provider of high quality professional staff to the health and social care market.

Homecare is a very large potential marketplace. In order to supplement its organic growth, in October, BNA took the opportunity to purchase the business of Bankvale (a 12-branch homecare company) and integrate it into its existing network. This adds to the successful development of other homecare brands such as At Home Care and Abigail Care.

The future for BNA looks very promising – the ageing population, a rising demand for healthcare services and a continued shortage of more than 20,000 healthcare staff all point to the ever-growing need for the supply of healthcare workers. As the UK's number one choice for health and care professionals, BNA is uniquely positioned to respond to those demands.

Grosvenor Group – providing specialist nurses and choice to the NHS and Social Services in certain key regions.

2000 was an exciting and challenging year for the Grosvenor Group, as the management team successfully integrated Medico, the West of England nurse agency business acquired in August 1999, and took on responsibility for LPNS, acquired in October 2000.

The Grosvenor Group now accounts for 17% of the Healthcare Personnel Division, compared to 9% at the beginning of 1999.

Grosvenor Nursing enjoyed yet another year of good turnover and margin growth, with profitability growing strongly. In 2000, its turnover increased by 10.2% to £25.2m and since January 2001 it has added three branches in the heart of England to its agency network.

In addition to gaining a further new NHS contract, Grosvenor renewed all time-expired contracts at improved margins, by focusing on the delivery of a proactive, value-for-money service to existing clients. During the year, the business also significantly increased its database of members to over 14,000 and grew its branch network to 13. Grosvenor now provides staffing solutions to the NHS and the private sector throughout Greater London, the Midlands and Berkshire.

Grosvenor's expansion is a good example of organic growth within the Group. Its able management team has risen admirably to the challenges of the growing healthcare market and has strengthened operational processes at the same time as extending its regional network and customer base and offering new services to existing clients. Good controls are in place to facilitate its continued expansion in 2001.

In its first full year under the Group's ownership, Medico has increased its growth rate, assisted by the robust operational procedures implemented by Grosvenor's management team. Turnover in 2000 grew by 44% to £12.1m. Medico won a valuable new NHS contract and increased its branch network from three to five locations and now extensively covers the South West. Recruitment and training initiatives ensured that the membership base continued to grow in order to service the growing market in that region.

In October 2000, the Grosvenor Group added a further nurse agency business to its portfolio, with the Group's acquisition of LPNS. LPNS, a highly respected company in the nurse agency market, provides nurses and healthcare assistants, primarily to the NHS, on a contracted basis and in 2000 provided over six million hours of care.

Results to date, in the form of financial performance and operational synergies are in line with expectations. These early indications demonstrate that the strength of support provided by Grosvenor's management team, coupled with the operational and central resources provided by the Healthcare Personnel Division's management structure, will enable LPNS to increase the rate of its growth.

Carewatch Care Services – the UK's largest homecare franchise organisation.

Carewatch enjoyed yet another year of excellent growth in its franchise network and in the development of its brand. By December 2000, the number of branches had grown to 99, representing a further 19 openings during the year and Carewatch is well on course to meet the Group's target of 120 branches across the UK by 2002. In line with the Group's strategy, Carewatch also acquired a number of its franchises, bringing the total of company-owned offices to eight.

The number of hours of care delivered across the network increased by 60% from 45,000 per week in December 1999 to 72,000 by December 2000 as both individual franchises and company-owned offices capitalised on the established reputation of the company.

Medic International – the longest established name in agency locum doctors and professions allied to medicine.

2000 saw Medic International consolidate its position as a specialist, high-margin provider of medical personnel, capitalising on the restructuring programme introduced at the beginning of 1999. Further management focus on Medic International's branding strategy during the year enabled it to meet the Group's expectations. The development of its placement business, especially with the pharmaceutical industry, has been a positive expansion of Medic International's niche business focus.

Carewatch's experienced workers are uniquely positioned to respond to growing healthcare needs primarily driven by an ageing population

Our LPNS nursing agency business was already well-established prior to joining the Group in October 2000 with numerous ongoing NHS Trust contracts.

Country Cousins – the UK's leading provider of privately arranged live-in companions and residential care.

The number of days of care delivered by Country Cousins increased by 8% in 2000 to over 112,000 days per annum and the level of demand for its services continues to grow. In 2001 Country Cousins plans to work with Worldwide Healthcare Exchange in order to supplement its existing pool of UK "cousins" with those from overseas.

Worldwide Healthcare Exchange (WHE) – the only provider of healthcare personnel with a truly worldwide professional base, delivering the highest quality of overseas healthcare staff to the NHS.

The supply of overseas healthcare professionals to all Group companies has already commenced. We expect WHE's growth in 2001 to be led by recruitment to satisfy the Group's own demands, although staff will continue to be supplied to NHS clients.

Nestor's Healthcare Personnel Division provides focused and cost-effective solutions to industry shortages and growing demand.

Flexibility means work to suit all

Aged from 18 upwards, our workers want jobs that span the healthcare market. An occasional shift with BNA will suit one. Another will relish the chance to work and travel with Worldwide Healthcare Exchange. And while full-time positions are always available, for example through a Grosvenor NHS contract, all our businesses offer part-time opportunities – great for anyone balancing a career and other commitments.

More offices, more locations, more choice

Nestor currently has more than 300 offices across England, Wales, Scotland and Northern Ireland. Each works closely with its local healthcare communities. As a result, staff have access to the broadest range of posts in the widest variety of locations, in settings as diverse as nursing homes and NHS Trusts, local industry and clients' own homes.

Keeping experienced workers at work

As they approach retirement age, many more mature staff wish to continue in a caring role on a one-to-one or part-time basis. A wealth of experience makes them ideal for home assignments as diverse as nightsitting and living-in full-time. This kind of nursing assistance, regular support or simple companionship answers our workers' needs and enables many clients to live at home with a significant degree of independence.

Training the workforce of the future

For current workers and those wishing to take up or return to healthcare, Nestor continues its active commitment to promoting high standards in care provision throughout its businesses. By making practical and professional training available around the country, Nestor is helping create the workforce of the future as Government focuses more closely than ever on training care workers to NVQ levels.

Student nurse Alan works occasionally for BNA as a healthcare assistant. This provides a valuable additional resource and helps supplement Alan's income when he needs it most.

LPNS provides regular work for qualified nurse Unity in a local NHS hospital. Unity works alongside regular NHS employees as part of the team delivering quality nursing care.

Ramatu is a healthcare assistant with Brent Care At Home. Nestor's local training courses are available to help carers like Ramatu achieve NVQ qualifications.

For workers like Jacqueline, the opportunity to build a one-to-one relationship with clients is increasingly important to their ongoing job satisfaction.

Healthcare Services

This division has enjoyed a very successful year and now offers a range of services that provide quality and cost benefits to our customers and their end-users.

With a wealth of experience in providing healthcare in secure establishments, FMS delivers an increasingly valued specialist service.

Delivering innovative and cost-effective solutions to the UK's growing healthcare market

The Healthcare Services Division delivers a range of managed healthcare services to a varied client base including Government, the NHS and the private sector across all regions of the UK. The division draws on the unique capabilities of the Group to offer packages of care that provide quality and cost benefits to both purchasers and end-users. It is establishing innovative new models of healthcare, often in partnership with the NHS and Local Authorities, to meet the current and future health needs of the UK population.

Nestor Medical Duty Services (NMDS) – the second largest private out-of-hours doctors' deputising service in the UK.

Turnover grew to £11.1m in 2000, as the business continued to develop its services based on a network of 23 out-of-hours primary care centres and visiting doctors, co-ordinated from three fully computerised 24-hour call centres.

NMDS now provides out-of-hours GP services to some 4.2m people from its call centres in the West Midlands and the North West of England. These centres handled 377,000 emergency calls in 2000 and are fully linked with NHS Direct, the NHS' own telephone nurse triage service rolled out across the UK in 2000. In the recently published Carson review of out-of-hours services, NHS Direct is proposed as the first point of contact with primary care services, and will refer patients requiring medical attention to local out-of-hours services provided by GP co-operatives and commercial organisations such as NMDS. This provides an excellent platform for the expansion of NMDS' services with the newly-formed Primary Care Groups and Trusts.

Forensic Medical Services (FMS) – the leading UK provider of healthcare in secure establishments.

FMS enjoyed a most successful year in 2000, its first full year under the Group's ownership. The leading provider of primary healthcare in secure environments, FMS grew its turnover to £5.0m in 2000 and now provides a range of medical services to patients in 17 prisons and secure units – seven private and ten public.

FMS works in close partnership with Group 4 providing healthcare services to their expanding range of secure environments. In 2000 FMS and Group 4 were successful in securing two new contracts, both immigration detention centres which is a new area of service provision for FMS.

During the year FMS helped open the new immigration centre at Long Stanton and won various small contracts with the public sector prisons. Rye Hill Prison, a Category B private sector operated prison in Northamptonshire, was opened in January 2001, with FMS providing healthcare services to its 600 inmates.

Nestor Disability Analysis (NDA) – the provider of temporary medical personnel to Sema Group's contract to operate the Benefits Agency Medical Services.

Turnover in this single-customer business was down 11% to £30.2m, reflecting changes in the Benefits Agency's requirements for medical staff in the year and an artificially high first full year of operation in 1999 to clear an outstanding backlog inherited from the previous operator of the service. Payments for doctors' training courses have been introduced through the year, and for the first time in nine years a pay rise was given to the doctors.

In 2001, which will be the third full year of operation of the contract, NDA, together with Sema which holds the prime contract with the Benefits Agency, will be discussing innovation and change to the service that will offer better quality services to claimants and the Agency, and present opportunities for NDA's role to grow.

Primecare – a nurse-led complex home healthcare company.

2000 was an exciting year as this business more than doubled its turnover to £1.1m and broke even for the first time.

Established in 1999 as a new start-up business by the Group, Primecare delivers a range of complex treatments to patients in their own homes. Working closely with Health Authorities and NHS Trusts, Primecare's dedicated team of specialist nurses have cared for some 2,000 NHS, PMI and privately-funded patients during the year, helping to reduce the

Healthwatch combines its call centre facilities, monitoring equipment and links with Nestor's staff to provide 24-hour reassurance and health monitoring.

The work of Primecare's specialist nurses allows earlier discharge from hospital. For some patients it can also mean hospital admission is avoided altogether.

length of time they need to spend in hospital and in some cases to avoid in-patient admission altogether.

Primecare has helped to develop this growth market, winning contracts with NHS Trusts and Health Authorities on the basis of its ability to act speedily and flexibly to meet the often-complex needs of individual patients. The packages of care provided can vary from the management of a chronic condition at home through to a full hospital-at-home service, including the provision of equipment and pharmaceutical supplies.

Primecare is uniquely placed to take full advantage of the opportunity presented by the Government's recently announced commitment to care for more people in their own homes, outside the acute hospital sector.

Healthwatch – providing personal healthcare services by using leading-edge telecare technology.

Healthwatch delivers safe and efficiently managed home health and social care by providing remote monitoring and diagnostic services using the latest communications technology. Such technology provides benefits for the service user and any third-party funder (health, social services or independent). Healthwatch is working in partnership with SHL/Philips, the world's leading provider of telecare services, to develop the procedures, systems and equipment necessary to deliver this brand new service to the UK healthcare market.

In July, Healthwatch established a fully computerised 24-hour call centre, staffed with qualified nurses and medical practitioners. Using the facilities provided by the call centre and the remote monitoring devices supplied to patients, Healthwatch's staff provide a fast, intelligent and personalised response to all callers.

Some 200 public and private organisations have visited the centre and are now actively considering how best the service can be integrated into their health economy. Various pilot tests are now running with the NHS and private sector. The company is expected to establish clinical reference points through the year as this brand new market begins to be opened up by Nestor's initiative. The Group's present plan is to invest at least a further £1m over the coming year.

Hertford Medical International (HMI) – providing cardiac monitoring for the pharmaceutical industry.

Hertford Medical International is a leading provider of ECG and ambulatory blood pressure analyses to the pharmaceutical industry and local hospitals. HMI was founded in 1980 and has recently expanded the scope of its operations to be able to deliver services on a global basis to its pharmaceutical client base. The Group's acquisition of a 51% interest in HMI at the end of December 2000 provides access to a large and potentially valuable new customer base for remote telecare and other Group services. Turnover in 2000 was £1m.

Nestor addresses key NHS issues through managed healthcare services, innovation and access to professional personnel.

Providing 24-hour primary care

Access to primary care around the clock remains an important objective for Government. NMDS manages specialist services that include out-of-hours telephone services, GPs on call and 24-hour Primary Care Centres across the UK. These cost-effective solutions seamlessly enhance existing patient services, at the same time easing the burden on NHS professionals and resources.

Supporting hospital-to-home (intermediate care) transitions

Today, thanks to the range of highly-skilled nursing services offered by Nestor companies such as Primecare and Healthwatch, even patients with complex care needs can leave hospital safely at the earliest opportunity. Individually tailored and managed care packages enable patients to receive professional care and clinical monitoring in familiar surroundings. This frees up valuable hospital beds, allowing the NHS to look after even more patients.

Delivering hospital treatment at home

Just as leaving hospital early is often good for patients, avoiding hospital altogether can be equally beneficial. Developments in drugs and equipment allow specially trained nurses and healthcare professionals to provide patients with intravenous antibiotic therapy, chemotherapy and complex palliative care programmes at home. Again, this is a solution that aids cost-efficiency and effective use of resources for the NHS.

Shaping the future of healthcare

Nestor is leading the way in exploiting the potential of health technology. Healthwatch brings together proven equipment with 24-hour, nurse-led monitoring centres and local healthcare professionals. This unique combination enables key health indicators such as blood pressure, ECG output and blood oxygen levels to be monitored anywhere, day or night, representing a real opportunity for innovative and patient-focused services.

Nestor's managed care packages enable patients to leave hospital early while continuing to receive treatment or everyday support as necessary at home.

The value of staying at home even through complex, long-term care is immeasurable. Reduced stress and increased comfort levels can only benefit Shirley's recovery.

Telemedicine equipment allows Graham's angina to be monitored on the move before he travels, with obvious health benefits and reduced stress levels.

A local NMDS Primary Care Centre means that mothers like Kate have easy access to fully qualified medicai expertise 24 hours a day without travelling to A&E.

Financial Review

Operating margins increased to 6.3% overall, while cash flow from operations more than doubled to £23.8m.

Turnover

Turnover for the Group increased by 6% to £292.8m (1999: £277.4m) Identifiable turnover on the businesses acquired during the year amounted to £5.3m. In the Healthcare Personnel Division, turnover increased by 6% to £245.4m (1999: £230.6m). In the Healthcare Services Division turnover increased by 1% to £47.4m (1999: £46.8m) despite NDA seeing a reduction in turnover as screenings reverted to a more normal level after backlogs were cleared last year. The increase in the other Healthcare Services businesses was mainly attributable to the acquisition of FMS in August 1999.

Operating profit and margins

The Group's operating profit from continuing operations, before goodwill amortisation, was up 68% to £18.3m (1999: £10.9m). The 1999 profit excludes the Group's share of operating profit of Cross Country Staffing, the associate sold in July 1999.

Operating profit before goodwill amortisation from UK Healthcare Personnel was up 70% to £16.0m (1999: £9.4m) after the allocation of central costs. This increase was attributable to the effect of acquisitions made during the last two years and organic growth offset by the effect of withdrawing from low margin contracts in BNA. In addition 1999 operating profit was reduced by the one-off secondary agency costs incurred under two contracts in BNA.

Operating profit before goodwill amortisation from UK Healthcare Services was up 64% to £2.3m (1999: £1.4m) after the allocation of central costs. This reflected organic growth and margin improvements in NMDS, margin improvements in NDA and the acquisition of FMS in August 1999, offset by investment in Healthwatch, the telemonitoring business established in 2000.

The Group's UK operating profit margin before goodwill amortisation was 6.3% compared to 3.9% in 1999. The 1999 operating margin was distorted by the one-off costs in BNA. The underlying margin in 1999, before the effect of these costs, was 5.3%.

The operating margin before goodwill amortisation of UK Healthcare Personnel was 6.5% (1999: 4.1%) although the underlying increase was 0.7 percentage points after adding back the one-off costs incurred in 1999. In UK Healthcare Services, the operating margin was 4.9% (1999: 3.0%). This is a compound of the low margin earned by NDA, together with the investment in Healthwatch offset by the higher margin achieved in the other Healthcare Services businesses.

Our interest in Cross Country Staffing, sold in July 1999, contributed £2.7m (US$4.3m) to the Group's operating profit in 1999.

Exceptional charge

The exceptional charge of £0.7m arises from the establishment of a provision against the full carrying value of loan notes issued by Scott-Grant Group Limited as part of the consideration for the disposal by the Group of the Scott-Grant business in 1996. During the second half of the year it became apparent that the prospects for recovery of the remaining balance owed under the loan notes were poor due to the financial position of the Scott-Grant Group. We now consider that there is a significant risk that no further repayments will be made and, accordingly, a full provision has been made. No tax credit has been recognised in respect of this exceptional charge.

Pre-tax profit

Profit before tax, exceptional items and goodwill amortisation amounted to £18.8m, up 45% on last year's £13.0m. Profits earned in 2000 on businesses acquired in the last two years compensated for the net profit of £2.6m generated by the Group's US business in 1999 before disposal in July 1999. The improvements in underlying operating profits, an increase in net interest receivable together with the effect of the one-off costs incurred in 1999 were the factors behind the increased profit. Goodwill amortisation during the year amounted to £1.2m (1999: £0.6m).

UK net interest receivable was £0.4m (1999: payable of £0.5m).

Taxation

The tax charge for the year was £5.2m (1999: £4.3m). The average tax rate on profits, before goodwill amortisation and exceptional items, at 28% was lower than last year's 33% mainly because of the high marginal tax charge on the Group's USA earnings in 1999 and the tax relief available on contributions to the Employee Share Ownership Trust that was established during the year.

Earnings per share

The adjusted earnings per share, before exceptional items and goodwill amortisation was 17.10p (1999: 11.21p) an increase of 53%. This increase reflects the increase in pre-tax profit and the lower average tax rate. The diluted adjusted earnings per share was 16.91p (1999: 11.02p). This figure takes into account the dilutive effect of share options outstanding at the year end.

Cash flow

2000 was an excellent year for cash flow.

Cash flow from operations amounted to £23.8m, a substantial increase on the previous year of £8.9m. This was achieved mainly through a combination of higher operating profit and a reduction in debtors reflecting continuing improvements in cash collection procedures. Approximately £4.0m related to timing of certain creditor payments around the year end. Net cash inflow for the year was £1.8m (1999: £20.2m). Excluding the net effect of the sale of Cross Country Staffing and the acquisition of businesses there was a £13.7m net cash inflow (1999: £3.2m cash outflow).

Net capital expenditure was £2.4m (1999: £4.1m) and consists mainly of the investment in systems hardware and software to support the business.

Dividends, interest, UK Corporation Tax and US income taxes amounted to a net payment of £7.9m (1999: £8.6m).

Equity shareholders' funds

Equity shareholders' funds increased from £46.0m in 1999 to £52.5m, an increase of £6.5m mainly reflecting retained profit of £6.2m.

Acquisitions

Three acquisitions were made during the year. The aggregate purchase consideration including the costs of acquisition less cash balances acquired was £10.7m.

Goodwill arising on these acquisitions amounted to £10.7m with a further £0.6m arising from adjustments to estimated deferred consideration payable in respect of prior year acquisitions and the purchase of four Carewatch franchises. In line with FRS10, the Group's policy has been to capitalise goodwill on acquisitions made since 1998 and to amortise over their useful lives, all of which have been estimated at 20 years.

Treasury management and financial instruments

Financial instruments include all assets and liabilities of a financial nature such as cash, loans, overdrafts, trade debtors and trade creditors. All such instruments play an important part in the operations of the Group to enable it to operate smoothly and efficiently and to pay its obligations as they fall due. They also enable the Group to fulfil its investment strategy including making appropriate acquisitions.

The Group's objective is to use financial instruments to minimise the cost of capital at an acceptably low financial risk and to maximise flexibility to take advantage of investment and acquisition opportunities as they arise. The Group is principally a UK Healthcare operation and does not have significant exposure to foreign exchange risks. Nevertheless the Group's strategy is to hedge its foreign exchange exposure where it arises with foreign currency loans or forward exchange contracts as appropriate.

The main risks arising from the Group's financial instruments are interest rate and liquidity risks. The Board considers each of these risks on a regular basis and the Group's stance towards each of these risks has remained unchanged. At the end of the year, the Group had cash less borrowings of £8.9m (1999: £7.1m). It is, and has been throughout the year, the Group's policy that no trading in financial instruments will be undertaken.

Controls

Action has been taken to continue to strengthen financial and operational controls across the Group. The procedures implemented last year to monitor and manage key risks have been used throughout the year and enhanced further. The Group's internal audit function, which was outsourced to Deloitte & Touche last year, has played a key role in this process.

David Lyon, Group Finance Director
5th March 2001

Nestor in the Community

Charity of the year

As part of its commitment to the UK healthcare market, every year the Group asks its branch managers to vote for the organisation or charity that they would like to support as the Charity of the Year.

Throughout 2000, the Group supported fundraising activities and events on behalf of the Leukaemia Research Fund, the national charity researching leukaemia and related blood disorders in children and adults.

Nestor staff and workers from locations across the UK organised and supported a variety of fundraising events in their local communities, from dress down days and sponsored swims through to sponsored diets.

Environmental policy

As a service-based organisation, with no manufacturing or transportation facilities, the Group's exposure to environmental risk is limited.

However, the Group and its operating companies are fully committed to following the best environmental practices in the day to day conduct of their business and management of their resources and facilities. During the year, the Group adopted a formal environmental policy, which is directed at minimising the potential impact of the Group's operations on the environment. The Schedule of Matters Reserved for the Board's Consideration provides that the Group's Board retains ultimate responsibility for setting and monitoring its policy on environmental matters.

The policy provides for the promotion of an understanding of environmental consideration throughout the organisation and all managers are directed to encourage staff to follow the good practice outlined in the policy at all times.

The aims of the policy

The aims of the Group's environmental policy are:

- to take all practical steps to ensure the Group's business activities have the minimum impact upon the environment,
- to achieve the most economic and careful use of sources of fuel and energy,
- to minimise the production of waste,
- to make the maximum practical use of recycling.

The policy also provides that the Board is ultimately responsible for ensuring that the obligations imposed by all current and future environmental legislation are met.

Responsibility for the co-ordination of the policy throughout the Group rests with the Board and is administered by the Director of Corporate Human Resources.

Specialist advisors are appointed by the Director of Corporate Human Resources as required to ensure that best practice is followed, that the Group is aware of potential opportunities to improve performance and that all legislative and statutory requirements are met.

The directors of the Group's operating companies are responsible for ensuring compliance with the policy. Where appropriate, departmental representatives or co-ordinators have been appointed to act as an advisor and focal point for the dissemination of information and the promotion of initiatives to improve the immediate environment, reducing waste and ensuring the objectives of the policy are met.

Health and safety

The Board is aware of its responsibilities towards its employees and all users of the Group's services in health and safety matters. It recognises its ultimate responsibility for the setting and monitoring of appropriate policies, guidelines and practices in the formal Schedule of Matters Reserved for the Board's Consideration. During the year, it sanctioned the establishment of a Group Health and Safety Committee, with formal terms of reference and whose membership includes executive directors and the Company Secretary, in addition to individuals with specific expertise in health and safety matters. This committee will provide reports to the Board on the Group's health and safety strategy and the progress made by the various companies in the Group in achieving best practice.

The Group's Healthcare Personnel Division has established its own Health and Safety Committee, whose members include members of the Group Health and Safety Committee and which is concerned with the implementation of the Group's strategy with particular focus on issues affecting the businesses in that division. This committee meets approximately once a month and is currently focusing on ensuring

that all relevant employees in the division are fully aware (by means of appropriate training) of health and safety matters in the workplace and in the provision of care in the home.

The Healthcare Services Division has established a similar committee, which currently focuses mainly on clinical and other issues relevant to the type of care provided by the businesses in that division.

Ethical matters

During the year, the Board adopted a formal Code of Business Conduct, covering all of the businesses in the Group, which consolidated the various codes previously applicable to them. The Code provides comprehensive guidelines to all employees and workers as to the standard of business ethics expected from them as representatives of the Group. It also recognises the importance to the Group of operating to the highest possible ethical standards, bearing in mind the nature of the services provided by Group companies and the needs of its clients

In addition to the Code, certain of the Group's businesses have adopted codes of clinical best practice or ethics, tailored according to the nature of the services provided and clients cared for.

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Directors' Report

The directors are pleased to present their report and the audited financial statements for the year ended 31st December 2000.

Principal activities, results and future developments

Nestor Healthcare Group plc is the holding company of a group of companies in the healthcare sector. Its principal activities are:

- the provision of nurses and carers;
- the provision of locum doctors and other medical personnel;
- the provision of homecare personnel through a network of franchise branches across the UK;
- the provision of short-term resident carers;
- the provision of doctors' duty services;
- the provision of medical staff to the Benefits Agency Medical Services;
- the provision of healthcare and related services to secure establishments;
- the provision of remote healthcare monitoring services; and
- the provision of nurse-led disease management services.

The Chairman's Statement, Chief Executive's and Financial Reviews on pages 6 to 21 provide a report on the Group's activities, trading results and future developments.

Results and dividends

The profit attributable to shareholders was £11,474,000 (1999: £2,922,000). An interim dividend of 2.42 pence per ordinary share was paid to shareholders on 20th October 2000. The directors now recommend a final dividend of 4.27 pence per ordinary share, to be paid to shareholders on 25th May 2001. Following payment of all dividends for the year, totalling 6.69 pence, the surplus of £6,227,000 will be transferred to the Group's reserves.

Directors

The directors who served during the year were D G Heywood, J A S Jewitt, D O Lyon, M D R Horgan, R M Nicholls, A Parker, D Howell, W F Holmes and A R Beevor.

S R Page was appointed to the Board on 2nd March 2001 and A Parker will retire on 31st March 2001, in order to take up the position of Chair of the National Care Standards Commission on 1st April 2001.

In accordance with the Articles of Association, A R Beevor and S R Page will retire at the Annual General Meeting and, being eligible, will offer themselves for re-election. D G Heywood, R M Nicholls and D O Lyon will retire by rotation and, being eligible, will offer themselves for re-election.

A R Beevor holds office by virtue of a letter of appointment, providing for a term of office expiring three years from the date of his appointment. S R Page has a service agreement with the Company which is subject to twelve months' notice of termination. D O Lyon has a service agreement with the Company which is subject to twelve months' notice of termination (except in the case of a change of control of the company when twenty four months' notice is required from the Company). R M Nicholls holds office by virtue of a letter of appointment, providing for a term of office expiring in September 2001. DG Heywood holds office under a letter of appointment terminable on three months' notice at any time after 30th September 2001.

Directors' interests

All directors' interests, including details of shareholdings, are set out in the Remuneration Report of the Board on pages 28 to 30.

Directors' Report continued

Substantial shareholdings

At the date of this report the Company has been notified of the following material interests of 3% or more and non-material interests of 10% or more in its ordinary share capital:

	Number	Percentage of issued share capital
Schroder Investment Management Limited	13,123,498	16.68%
Scottish Widows Investment Partnership Limited	5,494,184	6.98%
Hill Samuel Asset Management Limited	5,121,814	6.51%
Fidelity International Limited	4,719,608	6.00%
Standard Life Group	3,785,150	4.81%
Prudential plc and The Prudential Assurance Company Limited	3,491,692	4.44%
Lloyds TSB Group plc	3,139,399	3.99%
AEGON UK plc	3,066,067	3.90%
3i plc	2,884,508	3.67%

Share capital

Details of the authorised and issued share capital of the Company during the year ended 31st December 2000 are given in note 23 to the financial statements.

Annual General Meeting – special business

The Annual General Meeting of the Company will take place at The Brewery, Chiswell Street, London EC1Y 4SD on Thursday, 17th May 2001 at 12.00 noon. The notice of the Annual General Meeting may be found on pages 63 and 64. In addition to the routine business of the meeting, the following special business will be transacted:

- Directors' authority to issue shares (Resolution 9)

  The Companies Act 1985 ("the Act"), prevents directors from allotting unissued securities without the authority of share-holders. In certain circumstances this could be unduly restrictive. The proposed resolution will give the directors a general authority to issue shares of the Company for cash, within certain constraints, without complying with the statutory pre-emption procedures. The total number of relevant shares which the directors will have the authority to allot will be 17,323,105 ordinary shares of 10p each (representing 22% of the share capital currently in issue). The directors have no present intention to exercise this authority (subject to the possibility of the allotment of shares in connection with acquisitions which may be made by the Company in the forthcoming year). The authority in Resolution 9 will expire at the conclusion of the next Annual General Meeting or on 17th August 2002, whichever is the earlier.

- Restricted disapplication of pre-emption rights (Resolution 10)

  The proposed special resolution will give the directors a limited authority to issue equity shares for cash other than to existing shareholders in proportion to their existing shareholdings notwithstanding the pre-emption provisions of Section 89 of the Act. This limited authority would allow the directors to make such issues provided they do not exceed in aggregate an amount equal to 5% of the issued share capital of the Company. The resolution also contained provisions enabling the directors to take action to overcome certain practical difficulties which could arise in the case of a rights issue. The authority in resolution 10 will expire on the conclusion of the next Annual General Meeting or on 17th August 2002, whichever is the earlier.

- Purchase by the Company of its own shares (Resolution 11)

  The directors consider that it would be advantageous for the Company to renew for a further year the existing authority granted at last year's Annual General Meeting, to allow the use of the Company's available cash resources to acquire its own shares in the market for cancellation. This authority is granted pursuant to Section 162 of the Act.

  Accordingly, a special resolution is proposed to authorise the purchase in the market of up to 10% of the issued ordinary shares of the Company at a price of not more than 105% of the average of the middle market quotations for the ordinary shares of the Company (as derived from the London Stock Exchange Daily Official List) for the ten business days prior to the date of purchase.

  The directors do not intend to exercise the Company's power to purchase its own shares other than in circumstances where they consider this to be in the shareholders' interests and where this would result in an increase in earnings per share.

Charitable and political donations
No political donations were made during the year. Charitable donations of £13,500 were made in 2000 (1999: nil).

Taxation status
The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Disabled employees
It is the Group's policy that disabled persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes in common with all employees.

The Group applies employment policies which are fair and equitable for all employees and which ensure entry into and progression within the Group are determined solely by application of job criteria and personal ability and competency.

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons.

Employee involvement
The Group attaches considerable importance to ensuring that all its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting the Group's performance and the market in which the Group operates. Involvement of employees in the Group's performance is also encouraged by the availability of performance-related bonuses as well as share option schemes, which are described in more detail elsewhere in this report.

Internal circulars and newsletters are issued regularly and consultation between management and staff is an ongoing process. Employees are consulted on issues directly affecting them wherever practicable.

Creditor payment policy
It is the Group's policy to have appropriate terms and conditions for transactions with suppliers, ranging from standard terms and conditions to those which have been specifically negotiated, and that in the absence of dispute, payment will be made in accordance with those terms and conditions and conforming to the CBI Code of Best Practice; copies are available from the CBI at Centrepoint, 103 New Oxford Street, London.

The Directors' Reports of the Group's United Kingdom operating companies give information about their creditor payment policies as required by the Companies Act. The Company, as a holding company, does not itself make any relevant payments in this respect.

Auditors
A resolution proposing the re-appointment of PricewaterhouseCoopers, Chartered Accountants, as auditors to the Company and authorising the directors to determine their remuneration will be put to the Annual General Meeting.

Approved by the Board on 5th March 2001 and signed on its behalf by

Emma Thomas
Company Secretary

Remuneration Report

The Board is pleased to present its remuneration report for the year ended 31st December 2000.

Remuneration policy

During the year, the Board delegated its powers to determine the Company's remuneration policy for senior executives to the Remuneration Committee ("the Committee"), the members of which during the year were David Heywood, Robert Nicholls, Anne Parker, David Howell and William Holmes. Since the year end, Antony Beevor has been appointed to the Committee. Further details relating to the Committee may be found on page 31 of this report.

In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Combined Code published by the Committee on Corporate Governance. Its aim is to provide a package of remuneration which is sufficient to attract, retain and motivate all of the Company's senior management, including executive directors, and to reward good performance. To that end, the Committee has decided to structure executive remuneration in three component parts:

- Basic salary and benefits
  Basic salary is determined by reference to the performance of the individual over the past year, taking into account their level of experience and the rates of basic pay for similar roles in comparable companies. In addition to the basic salary and items described below, the Company provides a range of benefits to executive directors, the most significant of which is a fully expensed car or cash alternative.

- Cash bonus
  Each year, the Committee sets stretching bonus targets for each executive, aiming to achieve a balance between short and long-term objectives. Targets comprise individual performance criteria specific to the executive's role and overall Group performance including profit before tax and earnings per share. No bonus is payable unless the Group's profitability meets certain stringent targets, whether or not the executive has achieved his individual objectives. Bonuses are non-pensionable.

  In relation to executive directors' bonuses for 2000 only, a maximum bonus of 100% of their basic salary was payable, provided each target was achieved in full.

  In 2001, the maximum level of bonus payable (if any) to each executive director will be 50% of salary.

- Share options
  The Board believes that share ownership by senior executives encourages above average performance, since the interests of management and shareholders are thereby aligned. Accordingly, it is the Committee's policy to grant share options to executive directors, provided adequate performance has been demonstrated. Options are not exercisable unless the Company has met certain challenging performance criteria as determined by the Committee from time to time.

Employee share option schemes

The Company operates a number of employee share option schemes available to executive directors and to middle and senior managers, all of which (except the savings related option scheme) have performance conditions attached to them.

The Committee has agreed that the exercise of options held under the Company Share Option Plan 1996 and the Employee Share Option Scheme 1996 is conditional on growth in the Company's earnings per share of at least 15 percent above the growth in the UK retail prices index over three consecutive financial years ending after the financial year of the date of grant.

The Company also operates a savings related share option scheme, which provides a long-term savings opportunity for all of the Group's employees, as well as encouraging them to participate in the success of the Group. Participation is open to all permanent employees who are able to make regular monthly savings and are exercisable in normal circumstances after three or five years at a price which is fixed at a discount of up to 20% from the average mid-market price of the Company's shares on the five business days immediately preceding the date on which invitations are made by the Committee.

It is the Company's policy regularly to grant share options, on a rateable basis, to a broad range of middle and senior management, including executive directors.

Company policy on contracts of service

Executive directors have contracts of employment terminable on one year's notice, except in relation to Justin Jewitt and David Lyon, in circumstances of a change of control of the Company, where two years' notice is required. Non-executive directors do not hold contracts of employment but are offered letters of appointment for fixed periods of three years, renewable annually thereafter by agreement. The Chairman's letter of appointment is for a fixed period, to 30th September 2001 terminable on three months' notice at any time thereafter. In accordance with best practice, non-executive directors are not entitled to any compensation for the early termination of their appointment nor are they entitled to any additional employment related benefits with the exception of Mr Heywood whose medical insurance premiums are paid for by the Company.

Company policy on the pensions of executive directors

Executive directors are able to join the Company's Retirement Benefits Scheme ("the Scheme") which is a funded, Inland Revenue approved, final salary occupational pension scheme. As with all participating employees, directors are entitled to a pension based on final salary (excluding bonuses) and length of pensionable service, subject to Inland Revenue limits. In 2000, the salaries of D O Lyon and M D R Horgan exceeded the Inland Revenue Earnings "Cap" and the Company agreed to provide benefits based on their actual basic salary, subject to their making members' contributions to the Scheme on the same basis. The Company has also established an unapproved scheme to provide additional death-in-service benefits to Mr Lyon and Mr Horgan, in line with their actual basic salaries.

Prior to the establishment of the Company's current policy on membership of the Scheme, the Company agreed to contribute to a personal pension plan for J A S Jewitt, which it continues to do.

Directors' emoluments

	Basic salary and fees 2000 £000	Taxable benefits 2000 £000	Performance related bonuses 2000 £000	Total emoluments excluding pensions 2000 £000	Total emoluments excluding pensions 1999 £000
D G Heywood	112	2	–	114	95
A R Beevor	4	–	–	4	–
W F Holmes	40*	–	–	40	–
M D R Horgan	129	7	13	149	–
D Howell	29	–	–	29	9
J A S Jewitt	232	10	58	300	204
D O Lyon	129	13	36	178	132
R M Nicholls	29	–	–	29	24
A Parker	25	–	–	25	13
C Goodson Wickes	–	–	–	–	23
F J A Howard	–	–	–	–	18
Total 2000	729	32	107	868	–
Total 1999	482	21	15	–	518

F J A Howard retired as a director on 31st August 1999. C Goodson-Wickes retired as a director on 31st December 1999.
A Parker was appointed as a director on 1st June 1999. D Howell was appointed as a director on 31st August 1999.
W F Holmes and M D R Horgan were appointed on 1st January 2000. A R Beevor was appointed on 31st October 2000.

The figures above represent emoluments earned as directors during the relevant financial year. All are paid in the year that they are earned, with the exception of bonuses which are paid in the year following that in which they were earned.

*Included in the basic salary and fees paid to W F Holmes is £15,000 consultancy fees in respect of special projects undertaken by him during the year.

Directors' pensions

Defined benefit scheme

	Accrued pension per annum at 31st December 2000 £000	Increase in accrued pension per annum during 2000 excluding price inflation £000	Transfer value of the increase less director's contributions £000
M D R Horgan	44	2	19
D O Lyon	21	2	5

The transfer value has been calculated on the basis of actuarial advice in accordance with the Actuarial Guidance Note GN11.

The above figures exclude any benefits derived from directors' additional voluntary contributions.

Defined contribution scheme

Employer contributions of £32,906 were paid during the year to a personal pension plan for J A S Jewitt

Remuneration Report continued

Directors' interests

The beneficial and family interests of directors in the share capital of the Company according to the register of directors' interests maintained by the Company under Section 325 of the Companies Act 1985 were:

	Ordinary Shares		Share Options					
			Company Plan 1996		Employee Scheme 1996		SAYE Schemes	
	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99	31.12.00	31.12.99
D G Heywood	393,589	393,589	–	–	–	–	–	–
A R Beevor	2,000	–	–	–	–	–	–	–
W F Holmes	4,000	–	–	–	–	–	–	–
M D R Horgan	–	–	26,000	26,000[4]	156,909	126,615[4]	4,717	4,717[4]
D Howell	4,000	4,000	–	–	–	–	–	–
J A S Jewitt	170,770	142,020	7,058	–	267,283	221,400	–	28,750
D O Lyon	35,750	7,000	26,000	26,000	96,741	66,447	–	28,750

Notes:

1. On 2nd January 2001, M D R Horgan exercised 26,000 share options under the Company Plan and sold 21,000 shares. Otherwise, between 31st December 2000 and the date of this report there were no changes in the interests of the directors in the share capital of the Company.
2. None of the directors has any non-beneficial interest in the Company's share capital.
3. No director was materially interested in any contract of significance (apart from contracts of service or for services) with any Group company during or at the end of the financial year.
4. At date of appointment.

Details of share options held by the directors during the year were:

	Scheme (see below)	At 1st January 2000	Granted/ (Exercised)	Number of Options At 31st December 2000	Exercise Price	Date from which exercisable	Expiry date
J A S Jewitt	1	221,400		221,400	115p	Nov '99	Nov '03
	1	–	45,883	45,883	425p	May '03	May '07
	2	–	7,058	7,058	425p	May '03	May '10
	3	28,750	(28,750)	–	60p	Dec '00	Jun '01
M D R Horgan	1	72,200		72,200	115p	Nov '99	Nov '03
	1	42,283		42,283	236.50p	Apr '01	Apr '05
	1	12,132		12,132	407.50p	Apr '02	Apr '06
	1	–	30,294	30,294	425p	May '03	May '07
	2	26,000		26,000	115p	Nov '99	Nov '06
	3	2,977		2,977	131p	Feb '01	Aug '01
	3	1,270		1,270	305p	Feb '02	Aug '02
	3	470		470	412p	Dec '02	Jun '03
D O Lyon	1	16,800		16,800	115p	Nov '99	Nov '03
	1	38,000		38,000	254.5p	Apr '01	Apr '05
	1	11,647		11,647	407.5p	Apr '02	Apr '06
	1	–	30,294	30,294	425p	May '03	May '07
	2	26,000		26,000	115p	Nov '99	Nov '06
	3	28,750	(28,750)	–	60p	Dec '00	Jun '01

Schemes:

1. Employee Share Option Scheme 1996 Options 2. Company Share Option Plan 1996 Options 3. SAYE Scheme Options

Notes:

1. There is no cost to the employee for the receipt of the Employee Share Option Scheme 1996 or Company Share Option Plan 1996 options. Deductions from earnings are made in respect of SAYE options.
2. Employee Share Option Scheme 1996 and Company Share Option Plan 1996 option prices are fixed at the mid-market price on the business day preceding the date of grant.
3. SAYE Scheme options are fixed at a discount of up to 20% below the average mid-market price for the five business days before the date of invitation applying to each option.
4. The mid-market price at 31st December 2000 was 490 pence and the range during the year was 385 pence to 662.5 pence.
5. During the year, JAS Jewitt and DO Lyon exercised options granted under the SAYE Scheme and the aggregate gain made was £238,912. No gains were made by directors on the exercise of share options in 1999.

On behalf of the Board

David Heywood, CBE

Chairman,

5th March 2001

Corporate Governance

The Company complied throughout the year with the Code provisions set out in Section 1 of the Combined Code published by the Committee on Corporate Governance in June 1998 ("the Code") except where indicated in this statement and the Remuneration Report.

The manner in which the Group applies the principles of good governance contained in the Code is described in the appropriate parts of this annual report. Thus the application by the Company of the Code's principles to remuneration matters at pages 28 and 29 should be read in conjunction with the statement below.

During the year, the Company has maintained a Board of directors which leads and controls the Company by holding at least ten meetings a year at which its current performance is examined and directions are given to operating executives. Regular reports on monthly performance and other ad hoc matters of importance to the Company ensure that the Board is supplied in a timely manner with the information necessary to make an informed judgement. In addition, the Board holds regular meetings to discuss and devise the Company's medium and long-term strategic focus and holds additional meetings as and when necessary to discuss other issues, such as potential acquisitions.

In accordance with the provisions of its Articles of Association and with the Code, each director is subject to re-election by the Company's shareholders at the Annual General Meeting immediately following appointment and at least every three years thereafter.

The Board has a schedule of matters specifically reserved to it for decision and has approved the written terms of reference for the various committees to which it has delegated its authority in certain matters. The schedule makes it clear that all directors have access to the advice and services of the Company Secretary and establishes a procedure for all directors to take independent advice, if necessary, at the Company's expense.

The Board is led by David Heywood, the Company's non-executive Chairman. Having carefully reviewed the provisions of the Code in 1998, the Board considers him to be independent of executive management since, although he was previously designated as the part-time executive Chairman, his focus was and continues to be on the overall performance of the Group and matters of corporate strategy, including shareholder relations. Accordingly, the Board does not consider that his previous "executive" role in the Company interferes in any way with his ability to exercise his independent judgement.

The day-to-day running of the Company's business is delegated to an executive team led by Justin Jewitt, the Group Chief Executive and which includes David Lyon, Group Finance Director, Mike Horgan, Managing Director of the Group's Healthcare Personnel Division and Stephen Page, Managing Director of its Healthcare Services Division. Five further non-executive directors with extensive finance, health and social care backgrounds provide the Board with a breadth of experience and with independent judgement. Bob Nicholls acts as the Company's independent senior non-executive director.

During the year, Dr Holmes received some £15,000 from the Company in addition to his director's fee in respect of special projects related to the continuing development of new businesses in the Group's Healthcare Services Division. The Board recognises that, accordingly, he does not meet all of the criteria of "independence" laid down in the corporate governance guidelines of some institutional investors. However, having reviewed the provisions of the Code, it considers Dr Holmes to be "independent" for its purposes, since the overall fee payable to him in respect of such consultancy is not sufficiently material to interfere with the exercise of his independent judgement in discharging his duties as a non-executive director. In addition, the Board considers that the appointment of Dr Holmes to provide such advice and consultancy services represented the best value available to the Company for the projects concerned.

The Board recognises that, as the former head of the Corporate Finance division of and as a part-time senior advisor to SG Hambros, the Group's Financial Advisors, Mr Beevor does not meet all of the criteria of "independence" laid down in the corporate governance guidelines of some institutional investors. However, after careful consideration, it has concluded that Mr Beevor is independent for the purposes of the Code, since his relationship with the Company's Financial Advisors does not interfere in any way with his ability to exercise independent, experienced and informed judgement as a non-executive director of the Company.

The Board actively encourages all directors to deepen their knowledge of their role and responsibilities and, during the year, all newly appointed Board members received the opportunity to receive formal training on courses specifically designed to help them to do so. In addition, all of the non-executive directors spent a number of days meeting members of the Company's executive team and most visited several of the Group's operating divisions.

The Board operates a number of committees, consisting wholly or mainly of non-executive directors to which it has delegated certain specific responsibilities and each of which have formally adopted terms of reference. These comprise Nomination, Audit and Remuneration Committees. The Nomination Committee, which makes recommendations to the Board on the appointment of directors, is chaired by David Heywood, who is also Chairman of the Remuneration Committee. Its composition is not fixed but comprises those directors who, in the Board's opinion, are best qualified to judge the suitability of candidates for the position which is to be filled. The Committee always comprises a majority of independent non-executive directors and in arriving at its recommendations, it makes use of professional advisors as it considers necessary.

The Audit Committee is Chaired by David Howell, who is a chartered accountant and Group Finance Director of First Choice Holidays PLC. It comprises only non-executive directors and meets regularly to review the preliminary and interim results before they are presented to the Board, to receive reports from the Company's internal and external auditors and to make recommendations to the Board on accounting policies

Corporate Governance continued

Its primary duties include the monitoring, on behalf of the Board, of compliance with and the effectiveness of the Company's accounting and internal control systems. The Committee's duties also include monitoring the scope and results of the Company's annual audit and the independence and objectivity of its auditors.

The Company has outsourced its internal audit function to a leading firm of chartered accountants, which reports regularly to the Audit Committee on projects undertaken in accordance with the audit plan agreed with the Committee at the beginning of every financial year.

During the year, only independent non-executive directors served on the Remuneration Committee, which determines the Group's overall remuneration strategy and the remuneration packages of the executive directors and other senior executives, after having consulted with the Chief Executive. In determining remuneration policy, the Committee is free to obtain such professional advice as it sees fit, and regularly monitors both the policies of comparator companies and current market practice, in order to ensure that the packages provided are sufficient to attract and retain executive directors of the necessary quality.

The remuneration of non-executive directors, including the Chairman, is a matter for the Company's Board and the Committee's terms of reference make it clear that the framework for the remuneration of the Company's senior executives must be agreed by the Board as a whole.

Short biographies of each of the directors, including their membership of the Board committees outlined above, may be found on pages 4 and 5

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chairman, Chief Executive and Group Finance Director meet regularly with institutional investors and analysts to discuss the Company's performance and all shareholders have access to the senior non-executive director, who is available to discuss any concerns which investors may have in relation to the running of the Company. The Board encourages shareholders to attend the AGM and is always willing to answer questions, either in the meeting itself or, more informally, afterwards.

Going Concern

The directors confirm that, after reviewing the financial position and cash flows of the Group, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal Controls

As required by the UK Listing Authority, the Company has complied throughout the year with the provisions of the Combined Code relating to internal controls, having implemented the procedures necessary to comply with the guidance issued in September 1999 (the Turnbull Committee Report) and to report in line with that guidance.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objective and can only provide reasonable and not absolute assurance against material misstatement or loss

In 1999, the directors adopted a revised comprehensive process for managing, evaluating and reporting on significant risks faced by the Group. The revised process has been in place for the whole of 2000 and up to the date of approval of the annual report and accounts.

The key elements of the system operated by the Group to identify, evaluate and manage significant risks include the following:

- The Group's management operates a formal process for identifying managing and reporting on operational and financial risks faced by each of the Group's businesses, whereby each of the risks identified is reviewed in detail by the executive directors on a quarterly basis and updated monthly as necessary. These reports form the basis of risk registers that are provided to the Audit Committee. Business review meetings are held on a monthly basis at which the Group's subsidiary company managing directors report on their review and share best practice.
- At each regular meeting, the Audit Committee reviews a register compiled by the managing director of each of the Group's businesses and the Group's corporate resource, summarising the significant risks faced by the businesses, the likelihood of those risks occurring and the steps being taken to minimise or otherwise manage those risks.

- The Board has, during the year, adopted new policies for managing business risks it has identified as having the potential significantly to impact on the Group's performance. For example, in April 2000, it adopted a revised policy on the process used by all Group companies for tendering for and entering into, major contracts with their customers. During the year, it also adopted new policies on environmental issues and the business conduct of all Group employees. It is currently working on a comprehensively revised policy relating to clinical and ethical issues faced by the Group

As required by the Turnbull Guidance, the Board has carried out an annual assessment of the effectiveness of the system of internal controls. The processes applied by the Board include.

- At the end of the year, the managing directors of each of the Group's businesses, including the Group's corporate resource, are required to complete and sign a register of the key financial and operational risks facing the business for which they are responsible and to confirm that they have complied throughout the year with the Company's policies and procedures on risk management. From these registers, a report identifying the key risks faced by the Group is compiled and signed by the Chief Executive, Finance Director and Company Secretary, who are also required to confirm their compliance with such procedures and policies. This report and the annual compliance statements of each of the managing directors are reviewed by the Board before the Annual Report & Accounts are approved.
- The Group has an independent Internal Audit function which reviews the overall effectiveness of the risk management process for the key risks and reports independently to the Audit Committee
- At each meeting the Audit Committee reviews reports of the executive management, internal and external auditors, on any issues identified as having a potentially substantial impact on the results of the Group, or areas of control weakness.
- The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration.
- At least twice a year, the Audit Committee reviews the work plans and results of each of the internal and external auditors.
- The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings.

Directors' Responsibilities

In respect of the preparation of financial statements

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit and cash flows of the Group for the period to that date. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and in accordance with applicable accounting standards. In addition, the directors are required:

- to adopt suitable accounting policies and apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to take account of expenses and income relating to the period being reported on, whether or not they have been paid or received in that period; and
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that the financial statements comply with the above requirements

The directors are responsible for the maintenance and integrity of the Nestor Healthcare Group plc web site on which the financial statements are published. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are also responsible for maintaining adequate accounting records so as to ensure that the financial statements comply with the requirements of the Companies Act, for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities.

Auditors' Report

Report to the shareholders of Nestor Healthcare Group plc

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and related notes (and the additional disclosures relating to the remuneration of directors included in the Remuneration Report) which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and financial statements, in accordance with applicable United Kingdom law and accounting standards as set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review and the Financial Review, the Corporate Governance statement, the Remuneration Report and the Directors' Report.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH
5th March 2001

Consolidated Profit and Loss Account

for the year ended 31st December 2000

	Notes	2000 £000	1999 £000
Turnover (including share of associated undertaking)			
Continuing operations			
Existing		**287,474**	277,445
Acquisitions		**5,328**	–
		292,802	277,445
Discontinued operations: Share of turnover of associated undertaking		**–**	22,673
		292,802	300,118
Less: Share of turnover of associated undertaking (discontinued operations)		**–**	(22,673)
Turnover	2,3	**292,802**	277,445
Cost of sales		**(232,096)**	(230,630)
Gross profit		**60,706**	46,815
Administrative expenses		**(43,582)**	(36,541)
Continuing operations			
Existing	3	**16,725**	10,274
Acquisitions	3	**399**	–
Operating profit	3	**17,124**	10,274
Share of operating profit of associated undertaking (discontinued operations)		**–**	2,704
Total operating profit	3,4	**17,124**	12,978
Exceptional loss on disposal of subsidiary and associated undertakings	5	**(727)**	(5,206)
Profit on ordinary activities before interest		**16,397**	7,772
Net interest receivable/(payable) – Group	8	**425**	(452)
– Share of associated undertaking (discontinued operations)		**–**	(69)
Profit on ordinary activities before taxation, goodwill amortisation and exceptional items		**18,759**	13,035
Goodwill amortisation		**(1,210)**	(578)
Exceptional items		**(727)**	(5,206)
Profit on ordinary activities before taxation		**16,822**	7,251
Tax on profit on ordinary activities	9	**(5,190)**	(4,274)
Profit on ordinary activities after taxation		**11,632**	2,977
Equity minority interests		**(158)**	(55)
Profit attributable to shareholders		**11,474**	2,922
Dividends	11	**(5,247)**	(4,350)
Retained profit/(loss) for the year	24	**6,227**	(1,428)
Earnings per share			
Basic	12	**14.63p**	3.76p
Diluted	12	**14.47p**	3.70p
Adjusted earnings per share before goodwill amortisation and exceptional items			
Basic	12	**17.10p**	11.21p
Diluted	12	**16.91p**	11 02p
Dividends per share	11	**6.69p**	5 58p

The historical cost profit on ordinary activities before taxation and the historical cost profit retained for the year after taxation and dividends are the same as those reported above.

Statement of Total Recognised Gains and Losses

for the year ended 31st December 2000

	2000 £000	1999 £000
Profit attributable to shareholders	**11,474**	2,922
Differences on foreign currency net investments (associated undertaking)	**–**	73
Total recognised gains and losses relating to the year	**11,474**	2,995

Reconciliation of Movements in Equity Shareholders' Funds

for the year ended 31st December 2000

	Notes	2000 £000	1999 £000
Profit attributable to shareholders		**11,474**	2,922
Dividends	11	**(5,247)**	(4,350)
Other recognised gains and losses for the year		**–**	73
Shares issued during the year		**1,287**	850
Contribution to Employee Share Ownership Trust	16	**(984)**	–
Goodwill written back on disposal of associated undertaking		**–**	34,542
Net increase in equity shareholders' funds		**6,530**	34,037
Opening equity shareholders' funds		**45,979**	11,942
Closing equity shareholders' funds		**52,509**	45,979

Balance Sheets

as at 31st December 2000

	Notes	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Fixed assets					
Intangible assets	13	**31,428**	21,337	**–**	–
Tangible fixed assets	14	**7,776**	7,724	**270**	217
Investments	16	**28**	772	**32,628**	22,854
Total fixed assets		**39,232**	29,833	**32,898**	23,071
Current assets					
Debtors	17	**40,926**	40,961	**53,813**	36,393
Cash at bank and in hand		**13,477**	11,743	**7,279**	25,179
		54,403	52,704	**61,092**	61,572
Creditors – amounts falling due within one year	18	**(38,548)**	(33,228)	**(24,856)**	(22,229)
Net current assets		**15,855**	19,476	**36,236**	39,343
Total assets less current liabilities		**55,087**	49,309	**69,134**	62,414
Creditors – amounts falling due after more than one year	19	**(76)**	(184)	**–**	–
Provisions for liabilities and charges	22	**(2,171)**	(3,195)	**(1,958)**	(2,779)
Net assets		**52,840**	45,930	**67,176**	59,635
Capital and reserves					
Called up share capital	23	**7,853**	7,814	**7,853**	7,814
Share premium account	24	**4,868**	3,620	**4,868**	3,620
Other reserves	24	**864**	864	**25,750**	25,750
Profit and loss account	24	**38,924**	33,681	**28,705**	22,451
Equity shareholders' funds		**52,509**	45,979	**67,176**	59,635
Equity minority interests		**331**	(49)	**–**	–
		52,840	45,930	**67,176**	59,635

The financial statements on pages 36 to 59 were approved by the Board on 5th March 2001 and were signed on its behalf by

D G Heywood

D O Lyon

Consolidated Cash Flow Statement

for the year ended 31st December 2000

	2000 £000	2000 £000	1999 £000	1999 £000
Net cash inflow from operating activities		**23,760**		8,928
Dividends received from associated undertaking		**–**		1,209
Returns on investments and servicing of finance				
Interest paid	**(353)**		(686)	
Interest received	**863**		215	
Net cash inflow/(outflow) from returns on investments and servicing of finance		**510**		(471)
Taxation		**(3,776)**		(4,265)
Net cash inflow before investing activities and equity dividends paid		**20,494**		5,401
Capital expenditure and financial investment				
Purchase of tangible fixed assets (note 14)	**(2,673)**		(4,305)	
Sale of tangible fixed assets	**308**		158	
Net cash outflow from capital expenditure and financial investment		**(2,365)**		(4,147)
Acquisitions and disposals				
Purchase of businesses and subsidiary undertakings (note 16)	**(13,036)**		(10,025)	
Net cash/(overdraft) acquired with businesses (note 16)	**1,864**		(45)	
Sale of discontinued operations (note 5)	**(740)**		33,441	
Receipts from loan note redemptions (note 16)	**45**		70	
Net cash (outflow)/inflow from acquisitions and disposals		**(11,867)**		23,441
Equity dividends paid		**(4,674)**		(3,868)
Net cash inflow before financing		**1,588**		20,827
Financing				
Issue of ordinary share capital (note 23)	**275**		850	
Repayment of loans	**(60)**		(1,520)	
Net cash inflow/(outflow) from financing		**215**		(670)
Increase in cash		**1,803**		20,157

The notes to the Consolidated Cash Flow Statement are shown in note 25 to the financial statements.

Notes to the Financial Statements

for the year ended 31st December 2000

Note 1 Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. Accounts are made up to the nearest practicable Friday to 31st December each year.

Basis of consolidation

The Group financial statements comprise a consolidation of the financial statements of the Company and all its subsidiary undertakings. The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the date of disposal. Merger accounting rules are followed in respect of mergers which satisfy the conditions set out in FRS 6 Associated undertakings are accounted for using the equity method.

Goodwill

Purchased goodwill, being the excess of the purchase consideration over the fair value of the net assets of newly acquired undertakings, is capitalised on the balance sheet, and amortised over its useful economic life not exceeding 20 years Prior to 1st January 1998, all purchased goodwill was written off to reserves on acquisition. Previously written off goodwill has not been reinstated and is charged to the profit and loss account on the disposal or termination of the related business

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation of fixed assets is provided in equal annual instalments to reflect a reduction from book value to estimated residual value over the useful life of the asset to the Group The range of average lives for each major asset category are:

Leasehold land and buildings	Term of the lease
Plant and equipment	3 to 8 years

Deferred taxation

Deferred taxation is provided on the liability method where, in the opinion of the directors, it is probable that the liability will crystallise in the foreseeable future.

Pension costs

Pension costs are charged to the profit and loss account in such a way as to provide for the liabilities evenly over the remaining working lives of the employees.

Leases

Where fixed assets are financed by leasing agreements which give rights approximately equivalent to ownership (finance lease) the assets are capitalised. The corresponding lease commitments are treated as obligations to the lessor All other lease payments are charged to the profit and loss account in the year to which they relate.

Foreign currencies

The trading results and cash flows of overseas subsidiary undertakings are translated into sterling using the average rates of exchange. The balance sheets of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the year-end. Exchange differences arising on translation into sterling are dealt with through reserves. Where the Company takes out foreign currency loans to hedge its investments in overseas subsidiary undertakings, both the loan and that part of the investment matched to the loan are translated into sterling at the year-end rate. The remaining element of the investment is translated at the rate ruling at the date of the investment except in those instances where forward exchange contracts have been arranged, in which case, the forward rate is used.

Share Schemes

The Group's Qualifying Employee Share Ownership Trust (QUEST) is a separately administered trust which is funded by a loan and a gift from the Group, and the assets of which comprise shares in the Company Shares in the QUEST are shown at their estimated recoverable amount being the option price of the shares payable by employees. The amounts contributed to the QUEST in excess of the option price are charged against reserves.

Note 2 Turnover

Turnover represents the amount invoiced net of value added tax in respect of the provision of services to customers during the year.

Note 3 Segmental reporting

	Turnover		Total operating profit	
	2000	1999	**2000**	1999
	£000	£000	**£000**	£000
Turnover and operating profit, including share of associate by geographical location				
United Kingdom	**292,802**	277,445	**17,124**	10,274
United States of America (discontinued operations)	**–**	22,673	**–**	2,704
	292,802	300,118	**17,124**	12,978

There is no material difference between the geographical analysis of turnover by origin and by destination.

	Turnover	
	2000	1999
	£000	£000
Turnover including share of associated undertaking by business activity		
UK Healthcare		
Personnel	**245,403**	230,586
Services	**47,399**	46,859
Total continuing operations	**292,802**	277,445
USA Healthcare (discontinued operations)	**–**	22,673
Total	**292,802**	300,118

All turnover is derived from external customers.

	Total operating profit before amortisation of goodwill		Total operating profit	
	2000	1999	**2000**	1999
	£000	£000	**£000**	£000
Operating profit including share of associated undertaking by business activity				
UK Healthcare				
Personnel	**16,006**	9,434	**15,249**	9,002
Services	**2,328**	1,418	**1,875**	1,252
Total continuing operations	**18,334**	10,852	**17,124**	10,274
USA Healthcare (discontinued operations)	**–**	2,704	**–**	2,704
Total	**18,334**	13,556	**17,124**	12,978

Central costs have been allocated across the business segments on the basis of turnover.

Notes to the Financial Statements continued

for the year ended 31st December 2000

Note 3 Segmental reporting – continued

Turnover, cost of sales, gross profit, administrative expenses and total operating profit are analysed between continuing and discontinued operations as follows:

	Continuing existing 2000 £000	Continuing acquisitions 2000 £000	Total 2000 £000
Turnover	**287,474**	**5,328**	**292,802**
Cost of sales	**(227,725)**	**(4,371)**	**(232,096)**
Gross profit	**59,749**	**957**	**60,706**
Administrative expenses	**(43,024)**	**(558)**	**(43,582)**
Total operating profit	**16,725**	**399**	**17,124**

	Continuing 1999 £000	Discontinued 1999 £000	Total 1999 £000
Turnover	277,445	–	277,445
Cost of sales	(230,630)	–	(230,630)
Gross profit	46,815	–	46,815
Administrative expenses	(36,541)	–	(36,541)
Operating profit	10,274	–	10,274
Share of operating profit of associate	–	2,704	2,704
Total operating profit	10,274	2,704	12,978

The turnover and operating profit identified as arising from acquisitions relates only to that element of LPNS which is separately identifiable. No indication can be given of the contribution to operating profit or turnover of the remaining element of LPNS and other acquired businesses because their business and assets were integrated into the Group's existing subsidiaries immediately after acquisition and it is not now possible to identify the separate results or turnover of each of the separate parts of these businesses.

Note 3 Segmental reporting – continued

	Net operating assets 2000 £000	1999 £000
Analysis of net operating assets/(liabilities) by business activity		
UK Healthcare		
Personnel	**53,973**	51,523
Services	**12,449**	11,933
Central	**(5,620)**	(7,724)
Total continuing operations	**60,802**	55,732

	2000 £000	1999 £000
Net assets per consolidated balance sheet	**52,840**	45,930
Net cash	**(8,929)**	(7,089)
Goodwill written off to reserves	**16,891**	16,891
Total net operating assets, including goodwill	**60,802**	55,732

All operating assets were held in the United Kingdom in both 2000 and 1999

Note 4 Operating profit

	2000 £000	1999 £000
Operating profit excluding associate is stated after charging/(crediting)		
Depreciation	**2,855**	2,118
Amortisation of goodwill	**1,210**	578
Net profit on sale of tangible fixed assets	**(105)**	(30)
Auditors' remuneration – audit	**321**	232
Operating lease rentals:		
Land and buildings	**1,546**	1,194
Plant and machinery	**17**	21

Remuneration of the Company's auditors in respect of other services amounted to £702,000 (1999 – £371,000). This includes £180,000 relating to due diligence fees and £522,000 to other consultancy fees.

Auditors' remuneration in respect of the Company's audit amounted to £37,000 (1999 – £31,000).

Notes to the Financial Statements continued

for the year ended 31st December 2000

Note 5 Exceptional loss on disposal of subsidiary and associated undertakings

	2000 £000	1999 £000
Loss on sale of minority interest in Cross Country Staffing	**–**	(5,206)
Provision against Scott-Grant loan note	**(727)**	–
Charge to the profit and loss account	**(727)**	(5,206)

The Scott-Grant loan note was granted as part of the disposal consideration received for Scott-Grant in 1996. The loan note was due to be repaid in 2000 but in November 2000, the management of Scott-Grant informed Nestor that it was unlikely to be able to repay the outstanding loan notes in the foreseeable future. The Directors have therefore decided to provide against the full value of the loan note and this has been treated as an exceptional loss on disposal as it represents an adjustment to the original disposal consideration received for Scott-Grant. No tax credit has been recognised in respect of this exceptional charge.

On 28th July 1999 the Group completed the disposal of its minority interest in Cross Country Staffing realising gross proceeds of \$54,100,000 (£34,123,000). There is no tax effect from the disposal. A cash payment of \$1,100,000 (£740,000) was made in 2000 in respect of an adjustment to the disposal consideration that was provided for previously

Note 6 Employees

	2000 £000	1999 £000
Employee costs		
Wages and salaries	**23,731**	20,717
Social security costs	**1,931**	1,560
Other pension costs	**933**	737
	26,595	23,014

	2000	1999
Average number of persons employed		
Full-time	**1,210**	1,015
Part-time	**1,473**	1,298
	2,683	2,313
Employee numbers by business activity		
Healthcare Personnel	**2,130**	1,875
Healthcare Services	**553**	438
	2,683	2,313

Note 7 Directors' emoluments

	2000 £000	1999 £000
Aggregate emoluments	**868**	518
Aggregate gains made on the exercise of share options	**239**	–
Company contributions to money purchase schemes	**33**	29
	1,140	547

One director (1999 – one) has retirement benefits accruing under money purchase pension schemes. In addition, retirement benefits are accruing to two (1999 – one) directors under the Company's defined benefit pension scheme.

Highest paid director		
Aggregate emoluments, gains made on share options and benefits under long-term incentive schemes	**419**	204
Company contributions to money purchase pension schemes	**33**	29

The detailed numerical analysis of directors' remuneration is included in the tables in the Remuneration Report on pages 29 and 30 and forms part of these financial statements.

Note 8 Net interest receivable/(payable) – Group

	2000 £000	1999 £000
Unwinding of discount in provisions (note 22)	**(98)**	(140)
Interest payable on bank loans and overdrafts	**(22)**	(493)
Interest payable on other loans	**(269)**	(149)
Total interest and similar charges payable	**(389)**	(782)
Bank interest and other investment income receivable	**814**	330
Net interest receivable/(payable) and similar items	**425**	(452)

Note 9 Taxation

	2000 £000	1999 £000
UK Corporation Tax at 30.00% (1999 – 30 25%) on taxable profits for the year	**5,300**	3,093
Under/(over) provision in previous years	**34**	(150)
Deferred tax (note 22)	**(144)**	34
Overseas taxes	**–**	1,297
	5,190	4,274

The tax charge has been reduced by £295,000 following a contribution of £984,000 to the Group's Employee Share Ownership Trust as detailed in note 16.

Note 10 Profit for the year

The profit after tax for the year dealt with in the accounts of the Company amounts to £12,485,000 (1999 – £14,542,000). Under the provisions of Section 230 of the Companies Act 1985, the Company has not published its own profit and loss account.

Note 11 Dividends

	2000 £000	1999 £000
Dividends paid		
Ordinary shares: 2.42p per share (1999 – 2.02p)	**1,892**	1,568
Dividends proposed		
Ordinary shares: 4.27p per share (1999 – 3.56p)	**3,355**	2,782
Total dividends: 6.69p per share (1999 – 5.58p)	**5,247**	4,350

Dividends waived by the Employee Share Ownership Trust are disclosed in note 16

Note 12 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares; those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below

	2000 Earnings £000	2000 Weighted average number of shares thousand	2000 EPS pence	1999 Earnings £000	1999 Weighted average number of shares thousand	1999 EPS pence
FRS 3 basis						
Basic earnings per share	**11,474**	**78,414**	**14.63p**	2,922	77,644	3.76p
Dilutive effect of options	**–**	**881**	**(0.16p)**	–	1,329	(0.06p)
Diluted earnings per share	**11,474**	**79,295**	**14.47p**	2,922	78,973	3.70p
Adjusted to exclude goodwill amortisation and exceptional items						
Basic – FRS 3 basis	**11,474**	**78,414**	**14.63p**	2,922	77,644	3.76p
Exceptional item	**727**	**–**	**0.93p**	5,206	–	6.70p
Goodwill amortisation	**1,210**	**–**	**1.54p**	578	–	0.75p
Adjusted basic earnings per share	**13,411**	**78,414**	**17.10p**	8,706	77,644	11.21p
Diluted – FRS 3 basis	**11,474**	**79,295**	**14.47p**	2,922	78,973	3.70p
Exceptional item	**727**	**–**	**0.92p**	5,206	–	6.59p
Goodwill amortisation	**1,210**	**–**	**1.52p**	578	–	0.73p
Adjusted diluted earnings per share	**13,411**	**79,295**	**16.91p**	8,706	78,973	11.02p

Note 13 Intangible assets

	Goodwill £000
Group	
Cost	
At 1st January 2000	21,972
Additions (note 16)	11,301
At 31st December 2000	33,273
Aggregate amortisation	
At 1st January 2000	635
Charge for the year	1,210
At 31st December 2000	1,845
Net book value	
At 31st December 2000	31,428
At 31st December 1999	21,337

The goodwill arising on all acquisitions is being amortised on a straight-line basis over 20 years. This is the period over which the directors estimate that the value of the underlying businesses acquired in each case is expected to exceed the value of the underlying assets.

Note 14 Tangible fixed assets

	Land & buildings		Plant & equipment, fixtures & fittings	
	Freehold £000	Leasehold £000	£000	Total £000
Group				
Cost				
At 1st January 2000	73	9	12,727	12,809
Additions	–	–	2,673	2,673
On acquisition of businesses and subsidiary undertakings	–	3	433	436
Disposals	(73)	–	(607)	(680)
At 31st December 2000	–	12	15,226	15,238
Depreciation				
At 1st January 2000	–	9	5,076	5,085
Eliminated on disposals	–	–	(478)	(478)
Charge for the year	–	–	2,855	2,855
At 31st December 2000	–	9	7,453	7,462
Net book value				
At 31st December 2000	–	3	7,773	7,776
At 31st December 1999	73	–	7,651	7,724

Note 14 Tangible fixed assets – continued

	Plant & equipment, fixtures & fittings £000
Company	
Cost	
At 1st January 2000	**438**
Additions	**190**
Disposals	**(86)**
At 31st December 2000	**542**
Depreciation	
At 1st January 2000	**221**
Eliminated on disposals	**(40)**
Charge for the year	**91**
At 31st December 2000	**272**
Net book value	
At 31st December 2000	**270**
At 31st December 1999	217

Note 15 Capital commitments

	2000 £000	1999 £000
Capital expenditure that has been contracted but not provided for	**70**	1

Note 16 Fixed asset investments

	Investment in own shares £000	Scott-Grant loan note £000	Total £000
Group			
At 1st January 2000	–	772	772
Purchase of shares	156	–	156
Sale of shares	(128)	–	(128)
Part repayment of loan note	–	(45)	(45)
Provision against loan note (note 5)	–	(727)	(727)
At 31st December 2000	28	–	28

Note 16 Fixed asset investments – continued

	Investment in own shares £000	Investment in subsidiaries £000	Scott-Grant loan note £000	Total £000
Company				
At 1st January 2000	–	22,082	772	22,854
Acquisition of businesses and subsidiary undertakings	–	12,224	–	12,224
Transfer of business to subsidiary undertaking	–	(1,706)	–	(1,706)
Purchase of shares	156	–	–	156
Sale of shares	(128)	–	–	(128)
Part repayment of loan note	–	–	(45)	(45)
Provision against loan note	–	–	(727)	(727)
At 31st December 2000	28	32,600	–	32,628

Investment in own shares relates to 47,250 shares held by the Group's Qualifying Employee Share Ownership Trust ('QUEST') which was established by the Company during the year. The Company established the QUEST to acquire new shares in the Company for the benefit of the employees and directors of the Group. On 15th March 2000, the Company provided £1,140,100 for this purpose of which £984,000 was by way of a gift, £156,000 by way of a loan and £100 by way of subscription for shares in the QUEST. On the same date, the QUEST subscribed at market value for 260,000 ordinary shares of 10p each. The shares rank pari passu in all respects with existing ordinary shares. The cost of the gift has been transferred by the Company directly to the profit and loss account reserve. The excess of the subscription price over the nominal value of the shares issued, which amounts to £1,114,100, has been taken to the share premium account.

The shares held by the QUEST at 31st December 2000 have been included in the group balance sheet, as investment in own shares, at a value of £28,350, which is the equivalent to the amounts receivable from employees on exercise of their options. The market value of the shares at 31st December 2000 was £231,851.

Dividends amounting to £8,300 have been waived on shares held by the QUEST under the terms of the trust deed and the costs relating to the scheme are dealt with in the profit and loss account as they accrue.

Except where stated, the following subsidiary companies are wholly-owned including 100% voting rights, operate in the United Kingdom and are registered in England & Wales. All companies have been included in the consolidated results of the Group.

Principal undertakings

Undertaking	Business
UK Healthcare Personnel	
British Nursing Co-operations Limited [1] (trading as BNA)	UK healthcare – provision of temporary nurses and carers
Grosvenor Nursing Agency Limited	
Medico Nursing and Homecare Limited [1]	
LPNS Limited	
Medic International Limited	UK healthcare – provision of locum doctors and other medical personnel
Country Cousins (Horsham) Limited	UK homecare – provision of short-term resident carers
Carewatch Care Services Limited [2]	Franchised provider of temporary homecare personnel
Worldwide Healthcare Exchange Limited	Placement of overseas healthcare professionals
UK Healthcare Services	
Nestor Disability Analysis Limited	Medical staff for the Benefits Agency Medical Services
Nestor Medical Duty Services Limited	UK doctors' duty services
Forensic Medical Services Limited	Healthcare and related services in secure establishments
Nestor Healthwatch Limited	Remote healthcare monitoring services
Nestor Primecare Limited	Nurse-led disease management services
Hertford Medical International Limited [2]	Cardiac monitoring

[1] The interest of Nestor Healthcare Group plc is held through intermediate holding companies.

[2] Nestor Healthcare Group plc has a 51% interest.

Notes to the Financial Statements continued

for the year ended 31st December 2000

Note 16 Fixed asset investments – continued

Scott-Grant loan note

The Scott-Grant loan note was repayable in 2000. During the year an amount of £45,000 was repaid. In November 2000, the management of Scott-Grant informed Nestor that it was unlikely to be able to repay the outstanding loan note in the foreseeable future. The directors have therefore decided to provide against the full value of the outstanding loan note.

Cross Country Staffing

Until 28th July 1999, the Company had, through Nestor-BNA Holdings Corp. and its subsidiaries, a 34% interest in Cross Country Staffing, and accounted for its results as an associated undertaking.

Related party transactions

Neither the Group nor the Company had any material transactions with related parties during the year. Details of transactions with directors are set out in the Remuneration Report on pages 28 to 30.

Business acquisitions

The group purchased companies and businesses during the year for a total purchase consideration of £11,990,000 of which £10,287,000 was in respect of the acquisition on 21st October 2000 of LPNS Limited. A fair value adjustment of £200,000 was made to reduce the book value of the debtors acquired with LPNS to reflect the alignment of accounting policies with those of the Group. All of these purchases have been accounted for as acquisitions

The fair value of assets and liabilities acquired and the goodwill arising are as follows:

	LPNS £000	Other £000	Total £000
Fixed assets	14	422	436
Current assets and liabilities			
Debtors and prepayments	3,112	258	3,370
Creditors and accruals	(3,324)	(197)	(3,521)
Cash	1,851	13	1,864
Net current assets	1,639	74	1,713
Creditors – amounts falling due after more than one year	(5)	(23)	(28)
Minority interest	–	(222)	(222)
Net assets acquired	1,648	251	1,899
Purchase consideration	10,287	1,703	11,990
Costs of acquisition	659	93	752
Total cost	10,946	1,796	12,742
Goodwill arising on acquisitions made in the year	9,298	1,545	10,843
Goodwill arising on adjustment to deferred consideration on prior year acquisitions	–	458	458
Total goodwill arising in year (note 13)	9,298	2,003	11,301

The goodwill arising on adjustment to deferred consideration on prior year acquisitions reflected adjustments to the final amounts payable under earn-out agreements on the acquisition of three businesses in 1999.

Note 16 Fixed asset investments – continued

Cash flows in respect of purchase of businesses

	LPNS £000	Other £000	Total £000
Total cost	**10,946**	**1,796**	**12,742**
Accrued expenses	**(256)**	**(50)**	**(306)**
	10,690	**1,746**	**12,436**
Deferred consideration settled in cash in relation to prior year acquisitions	**–**	**600**	**600**
Total cash expended on purchase of businesses	**10,690**	**2,346**	**13,036**
Net cash acquired	**(1,851)**	**(13)**	**(1,864)**
Net cash flows in respect of purchase of businesses	**8,839**	**2,333**	**11,172**

LPNS Limited, in its last financial year to 31st December 1999, achieved profit after tax of £101,000. For the period since 31st December 1999 to the date of acquisition the profit after tax was £267,000

The deferred consideration settled in cash in relation to prior year acquisitions reflected final amounts payable under earn-out agreements on the acquisition of two businesses.

Note 17 Debtors

	Group		Company	
	2000 £000	1999 £000	**2000 £000**	1999 £000
Trade debtors	**32,937**	33,558	**–**	–
Amounts owed by Group companies	**–**	–	**37,729**	26,667
Dividends receivable from Group companies	**–**	–	**13,507**	7,890
Other debtors	**510**	431	**194**	97
Prepayments and accrued income	**7,479**	6,972	**50**	150
Corporation tax	**–**	–	**2,333**	1,589
	40,926	40,961	**53,813**	36,393

Note 18 Creditors – amounts falling due within one year

	Group		Company	
	2000 £000	1999 £000	**2000 £000**	1999 £000
Bank overdraft and loans	**25**	94	**–**	–
Loan other than from banks	**4,500**	4,500	**4,500**	4,500
Trade creditors	**6,979**	6,371	**–**	–
Amounts owed to Group companies	**–**	–	**12,312**	9,689
Dividends proposed	**3,355**	2,782	**3,355**	2,782
Corporation Tax	**4,039**	2,445	**–**	–
Other tax and social security	**4,700**	2,469	**78**	27
Other creditors	**9,609**	10,087	**4,127**	4,513
Accruals and deferred income	**5,341**	4,480	**484**	718
	38,548	33,228	**24,856**	22,229

Note 19 Creditors – amounts falling due after more than one year

	Group		Company	
	2000	1999	**2000**	1999
	£000	£000	**£000**	£000
Bank loan	**23**	60	**–**	–
Other creditors	**53**	124	**–**	–
	76	184	**–**	–

Note 20 Net cash

	Interest rates	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Unsecured					
Bank overdraft and loans	variable	**(48)**	(154)	**–**	–
Loan other than from banks	variable	**(4,500)**	(4,500)	**(4,500)**	(4,500)
Total borrowings		**(4,548)**	(4,654)	**(4,500)**	(4,500)
Cash at bank and in hand		**13,477**	11,743	**7,279**	25,179
Net cash		**8,929**	7,089	**2,779**	20,679

Net cash for the Group is summarised as follows:

	Repayable within 1 year £000	Repayable between 1 and 2 years £000	Repayable between 2 and 5 years £000	Total £000
Unsecured				
Bank overdraft and loans	**(25)**	**(23)**	**–**	**(48)**
Loan other than from banks	**(4,500)**	**–**	**–**	**(4,500)**
Total borrowings	**(4,525)**	**(23)**	**–**	**(4,548)**
Cash at bank and in hand	**13,477**	**–**	**–**	**13,477**
At 31st December 2000	**8,952**	**(23)**	**–**	**8,929**
At 31st December 1999	7,149	(20)	(40)	7,089

Note 21 Financial Instruments

An explanation of the role that financial instruments have had during the year in creating or changing the risks that the Group faces in its activities is set out in the Financial Review on page 21.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures.

Note 21 Financial Instruments – continued

Interest rate profile of financial liabilities

The interest rate profile of the Group's financial liabilities at 31st December 2000 was:

	Total £000	Floating rate financial liabilities £000	Financial liabilities on which no interest paid £000
At 31st December 2000 – all sterling	**6,667**	**6,614**	**53**
At 31st December 1999 – all sterling	7,724	7,600	124

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to their short-term nature or because they do not meet the definition of a financial liability, such as tax balances.

Included in the above are the Group's provisions of £2,066,000 (1999 – £2,946,000) for vacant leasehold properties (note 22) which meet the definition of financial liabilities. These financial liabilities are considered to be floating rate liabilities as, in establishing the provisions, the cash flows have been discounted and the discount rate is re-appraised at each half yearly reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability. Other floating rate financial liabilities bear interest at rates, based on LIBOR, which are fixed in advance for periods of between one month and six months.

The weighted average period to maturity of financial liabilities that bear no interest at 31st December 2000 was 1.5 years (1999 – 1 5 years)

Interest rate profile of financial assets

The interest rate profile of the Group's financial assets at 31st December 2000 was:

	Total £000	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets on which no interest received £000
Sterling	**13,376**	**13,328**	**–**	**48**
Australian dollars	**31**	**–**	**–**	**31**
New Zealand dollars	**14**	**–**	**–**	**14**
Canadian dollars	**20**	**–**	**–**	**20**
US dollars	**29**	**7**	**–**	**22**
Dutch guilders	**7**	–	–	**7**
At 31 December 2000	**13,477**	**13,335**	–	**142**
Sterling	12,484	11,589	772	123
Australian dollars	21	21	–	–
New Zealand dollars	10	10	–	–
At 31st December 1999	12,515	11,620	772	123

The financial assets comprise loan notes, bank deposits, bank current account balances and cash in hand. The floating rate financial assets earn interest at rates based on relevant national LIBOR equivalents and are all recoverable within one year or on demand. The fixed rate financial assets in 1999 were the Scott-Grant loan notes, details of which are disclosed in note 16. The financial assets on which no interest is received are balances on bank current accounts and cash in hand.

Notes to the Financial Statements continued

for the year ended 31st December 2000

Note 21 Financial Instruments – continued

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31st December 2000 was:

	Debts £000	**Other financial liabilities £000**	**Total £000**
Within 1 year, or on demand	**4,525**	**138**	**4,663**
Between 1 and 2 years	**23**	**190**	**213**
Between 2 and 5 years	**–**	**419**	**419**
Over 5 years	**–**	**1,372**	**1,372**
At 31st December 2000	**4,548**	**2,119**	**6,667**

	Debts £000	Other financial liabilities £000	Total £000
Within 1 year, or on demand	4,594	178	4,772
Between 1 and 2 years	20	345	365
Between 2 and 5 years	40	730	770
Over 5 years	–	1,817	1,817
At 31 December 1999	4,654	3,070	7,724

Other financial liabilities includes the provision for vacant leasehold properties of £2,066,000 (1999 – £2,946,000).

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at that date:

	2000 £000	1999 £000
Expiring within 1 year	**2,250**	2,500
Expiring between 1 and 2 years	**–**	2,250
Expiring in more than 2 years	**–**	–
	2,250	4,750

All the above facilities incur commitment fees at market rates.

Fair values of financial assets and financial liabilities

The following table shows a comparison between the carrying amounts and the fair values of the Group's financial assets and financial liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. For floating rate financial assets and liabilities, fair values approximate to book values.

	2000		1999	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Financial assets	**13,477**	**13,477**	12,515	12,515
Short-term financial liabilities and current portion of long-term borrowings	**(4,525)**	**(4,525)**	(4,594)	(4,594)
Long-term borrowings	**(23)**	**(23)**	(60)	(60)
Other financial liabilities	**(2,119)**	**(2,119)**	(3,070)	(3,060)
	6,810	**6,810**	4,791	4,801

Note 22 Provision for liabilities and charges

	Vacant properties £000	Deferred tax £000	Total £000
Group			
At 1st January 2000	2,946	249	3,195
Transfer to profit and loss account	(690)	(144)	(834)
Utilised in the year	(288)	–	(288)
Amortisation of discount	98	–	98
At 31st December 2000	2,066	105	2,171
Company			
At 1st January 2000	2,779	–	2,779
Transfer to profit and loss account	(650)	–	(650)
Utilised in the year	(262)	–	(262)
Amortisation of discount	91	–	91
At 31st December 2000	1,958	–	1,958

Surplus properties

The Group has a number of properties that are either vacant or underlet at a discount relating to former retailing activities of the Group and which are located in the South of England Full provision has been made for the residual lease commitments, together with other outgoings, after taking into account existing sub-tenant agreements, for the remaining period of the leases which at 31st December 2000 is approximately 12 years. During the year, improved terms have been agreed on some sub-lease agreements and as a result, £690,000 of the provision has been released. In determining the provision for vacant properties, the cash flows have been discounted on a pre-tax basis using appropriate government bond rates.

Deferred tax

The provision for deferred tax comprises the full potential provision arising from accelerated capital allowances.

Note 23 Share capital

	Authorised		Allotted, issued and fully paid	
	Number	£000	Number	£000
Ordinary shares of 10p each				
At 1st January 2000	96,000,000	9,600	78,143,805	7,814
Issued during the year	–	–	390,664	39
At 31st December 2000	96,000,000	9,600	78,534,469	7,853

Of the shares issued during the year, 343,414 were issued for cash consideration of £275,000 to employees exercising share options under share option schemes and 47,250 shares remain held by the Employee Share Ownership Trust at 31st December 2000 as described in note 16.

Notes to the Financial Statements continued

for the year ended 31st December 2000

Note 24 Share premium account and reserves

	Share premium account £000	Other reserves £000	Profit & loss account £000
Group			
At 1st January 2000	3,620	864	33,681
Contribution to Employee Share Ownership Trust (note 16)	–	–	(984)
Issue of shares	1,248	–	–
Retained profit for the year	–	–	6,227
At 31st December 2000	4,868	864	38,924

At 31st December 2000 goodwill written off directly against reserves in respect of subsidiaries and associated undertakings still held by the Group was £16,891,000 (1st January 2000 – £16,891,000).

	Share premium account £000	Other reserves £000	Profit & loss account £000
Company			
At 1st January 2000	3,620	25,750	22,451
Profit for the year	–	–	12,485
Issue of shares	1,248	–	–
Contribution to Employee Share Ownership Trust (note 16)	–	–	(984)
Dividends	–	–	(5,247)
At 31st December 2000	4,868	25,750	28,705

Note 25 Notes to the cash flow statement

	2000 £000	1999 £000
Reconciliation of operating profit, excluding share of profit of associate, to net cash inflow from operations		
Operating profit	17,124	10,274
Amortisation of goodwill	1,210	578
Depreciation	2,855	2,118
Net profit on sale of tangible fixed assets	(105)	(30)
Utilisation of provisions	(978)	(179)
Decrease/(increase) in debtors	3,292	(4,211)
Increase in creditors	362	378
Net cash inflow from continuing operating activities	23,760	8,928

	2000 £000	1999 £000
Reconciliation of net cash flow to movement in net debt		
Increase in cash	1,803	20,157
Cash outflow from decrease in debt	60	1,520
	1,863	21,677
Increase in loans on acquisition of subsidiary undertaking	(23)	(4,500)
	1,840	17,177
Net cash/(debt) at 1st January	7,089	(10,088)
Net cash at 31st December	8,929	7,089

Note 25 Notes to the cash flow statement – continued

	Loans repayable in less than one year £000	Loans repayable in more than one year £000	Overdraft £000	Cash £000	Total £000
Analysis of movements in loans and cash balances					
At 1st January 2000	(4,500)	(60)	(94)	11,743	7,089
Decrease in loans and net cash inflow	–	60	69	1,734	1,863
Increase in loans on acquisition of					
subsidiary undertaking	–	(23)	–	–	(23)
At 31st December 2000	(4,500)	(23)	(25)	13,477	8,929

The impact on cashflows of post acquisition trading of the subsidiary undertakings acquired during the year is not material.

Note 26 Other financial commitments

The Group occupies numerous premises operated under leases whose terms, conditions and expiry dates vary considerably.

The net commitment in respect of operating leases in 2000 is as follows

	Land & buildings not occupied by Group £000	Land & buildings occupied by Group £000	Total £000
For leases expiring			
within one year	53	49	102
between two and five years	116	145	261
beyond five years	348	16	364
	517	210	727

In respect of the hire of plant and machinery, operating lease commitments are not material.

Note 27 Contingent liabilities

In 1993, CCHP (a partner in the Cross Country Staffing ("CCS") partnership) commenced a programme of providing tax-free meal and lodging benefits ("Travel Benefits") to the travelling nurses it employed Such benefits were also provided to nurses employed by CCS following the establishment of the CCS partnership by CCHP and MRA Staffing Services Inc. (a former subsidiary of the Group) on 1st July 1996. The portion of the programme providing meal reimbursements was terminated on 1st June 1999 and applied to all contracts with nurses entered into prior to 1st June 1999.

In November 1998, the Inland Revenue Service of the US (the IRS) issued a payroll tax assessment of US$21.8 million for unpaid payroll tax in relation to the Travel Benefits provided to nurses for the 1993 to 1995 tax years of CCHP which were in the process of being reviewed by the IRS. On 23rd March 1999, CCHP filed a claim against the IRS in the United States Court of Federal Claims protesting this assessment

CCHP and the Company have received advice from legal advisers in the United States that CCHP should either succeed in opposing this assessment, or be able to settle the case for a significantly lower sum in relation to all tax years during which the programme operated. The Company's liability of such settlement would be limited to amounts relating to the period since 1st July 1996 (being the date of establishment of the CCS partnership) and, taking this into account, the Company's share of any liability would be approximately 22 per cent., with WR Grace & Co. being liable for substantially all of the remaining share.

Based upon the advice received, the directors do not believe it is appropriate to make any provision in the accounts.

Note 28 Pension costs

The Company operates a funded pension scheme providing benefits based on final pensionable salary. The scheme is administered by Trustees separately from the affairs of the Group and is contracted out of the additional component of the State Pension Scheme.

Watson Wyatt Partners, consulting actuaries, carried out an actuarial valuation of the scheme as at 5th April 1997. The valuation took into account the financial effect of the July 1998 Budget which removed the ability of pension schemes to reclaim tax credits on UK equity dividends. On the actuarial basis used, as at that date the assessed value of the assets was 88% of the capitalised value of the accrued benefits, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an on-going entity.

The market value of the investments held in the scheme as at the valuation date was £6,215,000. In addition there were pensions in payment secured by the purchase of annuities.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return on future net cash flow, the rate at which dividends on UK equities grow and the rate of increase in pensionable earnings. These rates were set relative to an assumed long-term rate of price inflation of 4% per annum.

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 4.25% per annum relative to price inflation. For the purposes of the valuation, the investment assets were assumed to be invested 85% in UK equities – with dividends assumed, over the long-term future, to grow on average at a real rate of 0.5% per annum relative to price inflation – and 15% in British Government long-term fixed interest securities. Pensionable earnings were assumed to increase on average at a rate of 3% per annum ahead of price inflation.

The employer's contribution rate is calculated using the projected unit method and the shortfall of assets as at 5th April 1998 is amortised as a constant percentage of members' pensionable earnings over the average expected working lifetime of the active members.

The pension charge for the year was £933,000 (1999 – £737,000).

Note 29 Share option schemes

The following table sets out options in issue under the various Company schemes at the beginning and end of the year and movements during the year. Share options in issue expire after a certain time and exercise dates vary. Exercise rights are subject to the rules of the schemes and share options in issue are not normally exercisable until the expiry of a period of at least three years. In addition, achievement of performance levels is normally required in all schemes except the SAYE scheme.

Employee Share Option Scheme

Date of issue	Option price (pence)	In issue 1st Jan 2000	Granted in the year	Exercised in the year	Lapsed in the year	In issue 31st Dec 2000
October 1990	86.00	6,120	–	(6,120)	–	–
October 1991	67.00	5,000	–	(5,000)	–	–
		11,120	–	(11,120)	–	–
Company Share Option Plan 1996						
November 1996	115.00	133,200	–	(77,100)	–	56,100
April 1998	236.50	175,283	–	–	–	175,283
October 1998	339.50	57,912	–	–	–	57,912
April 1999	407.50	66,487	–	–	–	66,487
October 1999	596.50	45,425	–	–	(8,827)	36,598
May 2000	425.00	–	433,430	–	(12,768)	420,662
August 2000	429.50	–	27,936	–	–	27,936
November 2000	472.50	–	6,349	–	–	6,349
		478,307	467,715	(77,100)	(21,595)	847,327
Employee Share Option Scheme 1996						
November 1996	115.00	393,900	–	(41,600)	–	352,300
April 1998	236.50	322,405	–	–	–	322,405
April 1998	254.50	38,000	–	–	–	38,000
October 1998	339.50	15,074	–	–	–	15,074
April 1999	407.50	145,319	–	–	–	145,319
October 1999	596.50	17,770	–	–	(5,867)	11,903
May 2000	425.00	–	499,731	–	–	499,731
August 2000	429.50	–	26,777	–	–	26,777
November 2000	472.50	–	46,561	–	–	46,561
		932,468	573,069	(41,600)	(5,867)	1,458,070
Savings Related Share Option Scheme						
October 1995	60.00	265,373	–	(212,750)	(52,623)	–
December 1997	131.00	319,695	–	(612)	(117,882)	201,201
December 1998	305.00	141,172	–	(232)	(46,600)	94,340
September 1999	412.00	145,360	–	–	(43,459)	101,901
		871,600	–	(213,594)	(260,564)	397,442
Total		**2,293,495**	**1,040,784**	**(343,414)**	**(288,026)**	**2,702,839**

Five Year Summary

	1996 £000	1997 £000	1998 £000	1999 £000	**2000** **£000**
Group profit and loss account					
Turnover (including share of associated undertaking)					
Continuing operations	124,574	144,342	221,345	277,445	**292,802**
Discontinued operations	18,048	29,029	32,519	22,673	**–**
	142,622	173,371	253,864	300,118	**292,802**
Less: Share of turnover of associated undertaking	(12,606)	(29,029)	(32,519)	(22,673)	**–**
Turnover	130,016	144,342	221,345	277,445	**292,802**
Operating profit					
Continuing operations	6,746	7,053	9,466	10,274	**17,124**
Discontinued operations	326	–	–	–	**–**
	7,072	7,053	9,466	10,274	**17,124**
Share of operating profit of associated undertaking (discontinued operations)	1,025	2,821	3,937	2,704	**–**
	8,097	9,874	13,403	12,978	**17,124**
Exceptional items	(9,623)	–	–	(5,206)	**(727)**
Operating profit/(loss) after exceptional items	(1,526)	9,874	13,403	7,772	**16,397**
Net interest	(345)	8	(680)	(521)	**425**
Profit/(loss) before taxation	(1,871)	9,882	12,723	7,251	**16,822**
Taxation	(2,071)	(2,573)	(3,600)	(4,274)	**(5,190)**
Profit/(loss) after taxation	(3,942)	7,309	9,123	2,977	**11,632**
Equity minority interests	–	–	73	(55)	**(158)**
Profit attributable to shareholders	(3,942)	7,309	9,196	2,922	**11,474**
Profit before taxation, goodwill, amortisation and exceptional items	7,752	9,882	12,780	13,035	**18,759**
Earnings/(loss) per share – FRS 3 basis	(5.22)p	9.55p	11.90p	3.76p	**14.63p**
Earnings per share – before goodwill amortisation and exceptional items	7.52p	9.55p	11.97p	11.21p	**17.10p**
Dividends per share	3.47p	3.87p	4.65p	5.58p	**6.69p**

	1996 £000	1997 £000	1998 £000	1999 £000	**2000 £000**
Group balance sheet					
Goodwill	–	–	3,711	21,337	**31,428**
Tangible fixed assets	2,712	3,685	5,533	7,724	**7,776**
Investments	(34)	870	2,521	772	**28**
Total fixed assets	2,678	4,555	11,765	29,833	**39,232**
Current assets	14,621	22,887	36,006	40,961	**40,926**
Liabilities and provisions	(14,268)	(17,404)	(25,845)	(31,953)	**(36,247)**
Net operating assets	3,031	10,038	21,926	38,841	**43,911**
Net cash/(borrowings)	595	(4,002)	(10,088)	7,089	**8,929**
Net assets	3,626	6,036	11,838	45,930	**52,840**
Share capital	7,612	7,718	7,745	7,814	**7,853**
Share premium account	1,923	2,548	2,839	3,620	**4,868**
Other reserves	(5,909)	(4,230)	1,358	34,545	**39,788**
Equity shareholders' funds	3,626	6,036	11,942	45,979	**52,509**
Equity minority interests	–	–	(104)	(49)	**331**
	3,626	6,036	11,838	45,930	**52,840**
Group cash flow statement					
Net cash inflow from operating activities	6,226	2,534	4,925	8,928	**23,760**
Dividends received from associated undertakings	–	188	1,798	1,209	**–**
Interest (paid)/received	(136)	124	(154)	(471)	**510**
Tax paid	(1,818)	(2,087)	(3,527)	(4,265)	**(3,776)**
Capital expenditure	(1,473)	(1,905)	(2,954)	(4,147)	**(2,365)**
Acquisitions and disposals	4,389	1,067	(3,187)	23,441	**(11,867)**
Equity dividends paid	(2,467)	(2,749)	(3,205)	(3,868)	**(4,674)**
Issue of shares	722	731	318	850	**275**
Decrease in loans	(4,491)	–	(1,000)	(1,520)	**(60)**
Increase/(decrease) in cash	952	(2,097)	(6,986)	20,157	**1,803**

Shareholder Information

Financial calendar

Announcement of 2001 results (provisional)

For the half-year	July 2001
For the year	March 2002
Annual Report and Accounts circulated	April 2002
Annual General Meeting	May 2002

Dividends

Proposed final dividend 2000	
Announcement	5th March 2001
Ex-dividend	18th April 2001
Record date	20th April 2001
Payment date	25th May 2001
Interim dividend 2001 (provisional)	
Announcement	July 2001
Payment	October 2001

Analysis of shareholdings

At the date of this report the Company has 1,179 shareholders who hold over 78 million ordinary shares between them, analysed as follows:

Size of holding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–5,000	827	70.14	835,758	1.06
5,001–50,000	215	18.24	3,809,975	4.84
50,001–100,000	30	2.54	2,136,403	2.72
100,001 and over	107	9.08	71,894,759	91.38
	1,179	**100.0**	**78,676,895**	**100.0**

Type of shareholder				
Individuals	730	61.92	2,196,317	2.79
Nominee companies*	378	32.06	75,185,686	95.55
Other corporate and public bodies	67	5.68	1,292,646	1.64
Trust companies	4	0.34	2,246	0.02
	1,179	**100.0**	**78,676,895**	**100.0**

* This category includes the beneficiaries of pension funds, unit trusts, life assurance companies and investment trusts.

Share Registrar

The Company's registrar is Computershare Services PLC, of PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN, that the fifteenth Annual General Meeting of the Company will be held at The Brewery, Chiswell Street, London EC1Y 4SD on Thursday, 17th May 2001 at 12.00 noon for the following purposes:

Ordinary business

1. To receive and consider the financial statements, together with the reports of the directors and auditors, for the year ended 31st December 2000.
2. To declare a final dividend.
3. To re-elect A R Beevor as a director.
4. To re-elect S R Page as a director.
5. To re-elect D G Heywood as a director.
6. To re-elect D O Lyon as a director.
7. To re-elect R M Nicholls as a director.
8. To re-appoint PricewaterhouseCoopers as auditors of the Company, to hold office until the conclusion of the next Annual General Meeting and to authorise the directors to determine their remuneration.

Special business

9. To consider and if thought fit, to pass the following resolution as an Ordinary Resolution:

   That the directors be and are hereby authorised and empowered during the period expiring at the conclusion of the next Annual General Meeting of the Company, or on 17th August 2002 whichever is earlier, to allot relevant securities as defined in Section 80 of the Companies Act 1985 ("the Act") and to make an offer or agreement which would or might require relevant securities to be allotted after that date, so long as the nominal value of the relevant securities allotted under this authority shall not exceed the nominal value of the authorised but unissued share capital of the Company at the date hereof.

10. To consider and if thought fit, to pass the following resolution as a Special Resolution:

    That the directors of the Company be and are hereby authorised and empowered during the period expiring at the conclusion of the next Annual General Meeting of the Company or on 17th August 2002, whichever is the earlier, to exercise all powers of the Company to allot equity securities (within the meaning of Section 94 of the Act) as if Section 89(1) of the Act did not apply in the case of:

    (a) allotments in connection with a rights issue to shareholders where the directors shall have the right to make such exclusions or other arrangements as they may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of or requirements of any recognised regulatory body or any stock exchange in any territory, or otherwise howsoever;

    (b) other allotments of equity securities for cash where this authority shall be limited in aggregate to the allotment of or involving equity share capital not exceeding (in nominal value) 5% of the nominal value of the issued share capital of the Company as at the date hereof.

11. To consider and if thought fit, to pass the following resolution as a Special Resolution:

    That, pursuant to Article 44 of the Company's Articles of Association, the Company be and is hereby granted renewal of its general and unconditional authority to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 10p each in the capital of the Company provided that:

    (a) the maximum number of ordinary shares hereby authorised to be purchased is 7,867,689, representing approximately 10% of the issued ordinary share capital at 5th March 2001;

    (b) the minimum price which may be paid for each ordinary share is 10 pence per ordinary share which amount shall be exclusive of expenses;

Notice of Annual General Meeting continued

(c) the maximum price which may be paid for each ordinary share is, in respect of an ordinary share contracted to be purchased on any day, an amount (exclusive of expenses) equal to 105% of the average of the mid-market quotations for an ordinary share of the Company as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased;

(d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the date of passing this resolution, unless such authority is renewed prior to such time; and

(e) the Company may conclude a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be exercised wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract as if the authority hereby conferred had not expired

By order of the Board

Emma Thomas
Company Secretary

Registered office.
The Colonnades
Beaconsfield Close
Hatfield
Hertfordshire
AL10 8YD

5th March 2001

1. A form of proxy is enclosed with this notice. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him A proxy need not be a member of the Company. To be valid, proxies must be lodged with the Registrar of the Company, Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 3FA, no later than 12.00 noon on Tuesday 15th May 2001. Appointment of a proxy will not prevent a member from attending and voting at the Annual General Meeting should he/she decide to do so.

2. Copies of directors' service contracts are available for inspection at the Company's registered office during normal business hours on any weekday (public holidays excepted) and at The Brewery for 15 minutes prior to and during the Annual General Meeting.

Nestor Healthcare Group plc

Registered office
The Colonnades, Beaconsfield Close
Hatfield, Hertfordshire AL10 8YD
www.nestor-healthcare.co.uk

British Nursing Association (BNA)
www.bna.co.uk

Worldwide Healthcare Exchange (WHE)
www.whe.co.uk

Grosvenor Nursing Agency
www.grosvenor-nursing.com

Medico Nursing and Homecare
www.medico-nursing.com

Medic International
www.medicnet.co.uk

Country Cousins
www.country-cousins.co.uk

Carewatch Care Services
www.carewatch-care-services.co.uk

Nestor Disability Analysis
www.nestor-disability-analysis.com

Nestor Medical Duty Services
www.nmds.co.uk

Forensic Medical Services
www.forensic-medical-services.co.uk

Primecare
www.nestor-primecare.com

Healthwatch
www.healthwatch.org.uk